INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
OF RWANDA

CPA

F1.4
BUSINESS MANAGEMENT, ETHICS & ENTREPRENEURSHIP

Study Manual

2nd edition February 2020,

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Unlimited possibilities

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Foundation F1

F1.4 BUSINESS MANAGEMENT, ETHICS & ENTREPRENEURSHIP

2nd Edition February 2020

This Manual has been fully revised and updated in accordance with the current syllabus/ curriculum. It has been developed in consultation with experienced tutors and lecturers.

Acknowledgement

We wish to officially recognize all parties who contributed to revising and updating this Manual, Our thanks are extended to all tutors and lecturers from various training institutions who actively provided their input toward completion of this exercise and especially the Ministry of Finance and Economic Planning (MINECOFIN) through its PFM Basket Fund which supported financially the execution of this assignment

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INTRODUCTION TO THE COURSE

INTRODUCTION TO THE COURSE
Stage: Foundation 1
Subject Title: F1.4 Business Management, Ethics and Entrepreneurship

Aim of the course

The aim of this subject is to ensure that students have an understanding of key principles and concepts in business management and also a full understanding of the importance of business and professional ethics in their conduct and actions. They should also be aware of the skills required to be a successful entrepreneur and the importance and techniques of effective communication.

Business Management, Ethics and Entrepreneurship as an Integral Part of the Syllabus

The principles and concepts learnt in this subject are relevant to students throughout their professional accounting studies.

Although there are connections with many subjects throughout the syllabus, knowledge gained from this subject will also be particularly relevant in the further study of Auditing, Audit Practice and Assurance Services, Financial Accounting, Introduction to Law, Management Accounting and Strategy and Leadership. There is a connection between communications subjects and the Information Systems paper.

Learning Outcomes

On successful completion of this subject students should be able to show:

- An understanding of the core Business functions of Management
- An understanding of how these functions affect the running of a modern business.
- An understanding of the attributes of an effective entrepreneur.
- An understanding of the key concepts and fundamental principles of Ethics and the practical application of them in the context of business and commercial activities.
- Demonstrate an understanding of general layout of a business plan for the enterprise.
- Practice the requirements and principles of sound corporate governance.
- Enhanced communication skills, verbal and written, that allow candidates to disseminate information and messages clearly to a range of audiences.

Syllabus:

1. Foundations of Business Management

- The nature of management and its role in business
- Common business analysis techniques such as SWOT and PEST
- Evolution of Management Theory
- The challenges that arise in the contemporary business environment and its dynamic nature

2. Management

- The fundamental principles and theories on which business management is based
- The contributions of management within a modern business organization
- The challenges involved in effective business management
- Functions of Management
- The role of Human Resource management within the organization and the associated challenges that may arise

3. **Marketing**

- The role of marketing and sales within the organization
- The importance of customer relations, market research and marketing communications
- The use of the internet in marketing
- Marketing ethics
- The different elements of the marketing mix and the role of services marketing

4. **Governance and Change Management**

- The main elements of governance that apply to both large and small companies
- Implementing change
- Power and organizational politics.

5. **Ethics and Conflict of interest in Business**

- Ethics: meaning, theories of ethics, ethics principles.
- Confidentiality
- Professional judgment
- Morality, ethics and values.
- The concepts and principles of the ICPAR Code of Ethics and the IFAC Code of Ethics.
- Disciplinary procedures of ICPAR and the consequences of a breach of the regulations.
- The ethical obligations upon a person dealing with financial information, products and services.
- The ethical obligations of company directors.
- The ethical obligations of auditors.
- Corporate social responsibility
- Conflict of interest and market manipulation
- Insider dealing, whistles blowing and conflict resolution mechanism.

6. **Entrepreneurship and self-employment**

- The definition of entrepreneurs and entrepreneurship
- Factors to be reviewed when considering self-employment
- The economic importance of self-employment
- Entrepreneurship and innovation
- Entrepreneurial characteristics
- The role and challenges of an entrepreneur

7. Entrepreneurial opportunities

- Generation and sources of business ideas
- Business incubation
- Qualities of a good business opportunity
- Assessing and selecting a suitable market
- Matching skills and resources to changing technology
- The protection of business ideas and business security issues
- Networking

8. Enterprise development

- Factors and trends that influence the growth of business enterprises.
- Business life cycles, stages and challenges faced by an entrepreneur at each stage.
- Strategies for managing growth and transition.
- Factors for success at each stage of development.
- Business amalgamations for example mergers, acquisitions, franchise take-overs, integrations. Statutory policies on enterprise development.
- Milestones in Enterprise development

9. Entrepreneurial awareness and motivation

- Procedures involved in starting a business
- Sources of business finance, for example micro-finance
- Legal forms of business ownership
- Legal aspects in business: licenses, labor laws, health and safety rules
- Business contracts and tendering procedures
- Business amalgamations for example mergers, acquisitions, franchise, take- overs, integrations
- Motivational theories of entrepreneurship
- Incentives for aspiring entrepreneurs

10. Business plan development

- The definition and importance of a business plan
- The components of a business plan
- Potential risks and mitigation measures
- Business Work plan

11. Current issues in entrepreneurship

- Taxation, trade exhibitions, e-commerce, globalization, outsourcing
- Entrepreneurship Education & Training
- Social Entrepreneurship (NFP- Not for Profit)

12.Essential communication skills

- Communication processes and barriers
- Channels of communication
- Types of verbal and non-verbal communication
- The importance of listening skills, critical thinking and problem solving

13. Business communication

- Meetings and interviews
- Business correspondences: letters, memos, circulars
- Report writing, types, structure and uses of reports
- Postal and courier services
- Presentations: planning, organizing/delivering business presentations

14. Technology and communication

- Telephone, fax
- Email
- Internet
- Electronic postal services and money transfers
- Other modern communication technologies

15. Emerging trends in communication

- Diversity in physical infrastructure & Higher Speed broadband networks
- Network Management Technologies e.g. E-Security
- Web based services and the emerging “social web” – social networking sites (SNS), Mobile Web, Internet TV, Cloud Computing, Virtual Identities, Semantic Web.

SECTION 1:
INTRODUCTION TO MANAGEMENT

Study Unit 1

Foundations of Business Management

Contents

THE NATURE OF MANAGEMENT AND ITS ROLE IN BUSINESS

MANAGEMENT – DEFINITION

Management - Definitions of key concepts

- **Management** is the process of using organizational resources to achieve the organization's goals in effective and efficiency manner by Planning, Organizing, Leading, and Controlling
- **Managers**: are the people responsible for supervising the use of an organization's resources to meet its goals.
- **Effectiveness:** A measure of the appropriateness of the goals chosen (are these the right goals?), and the degree to which they are achieved. Organizations are more effective when managers choose the correct goals and then achieve them.
- **Efficiency:** A measure of how well resources are used to achieve a goal. Usually, managers must try to minimize the input of resources to attain the same goal.
- **Productivity:** is a measure of how efficiently a process runs and how effectively it uses resources.

Characteristics of management

Leadership
In order to be an effective manager, you need to be able to lead your employees in an efficient manner. A lot of responsibility comes with being a manager, and being able to lead a team is required.

Experience
If you don't have experience working in a professional environment and leading a team, it will be hard to step up as a manager. A great way to gain experience in a management role is to volunteer, either within your field or with a nonprofit. Ask to help manage and produce events, whether it's raising money for an organization or organizing an event.

Communication
Being able to communicate with your team is required when being an effective manager. This not only means communicating job responsibilities and expectations, it means listening to your team and working with them to produce results within their position.

Knowledge
Experience as a manager is a must but so is knowledge. There are many different degrees offered for managers, including a bachelor's degree in business or a master's degree in leadership or project management. You can also get a certificate in project management, entrepreneurship, ethics, or human resource management.

Organization
If you aren't organized in your position, there's a good chance that the employees you manage won't be either. There are many resources online that can inspire you to get organized. You can also buy a personal planner or download an app on your phone that can remind you of meetings, tasks you need to complete every day, etc.

Time Management

Another key factor in being a successful manager is time management. If you're late every day, your employees might think it's acceptable to also be late. Time management is also important when it comes to prioritizing your day, making sure you have time to communicate with your employees, and accomplishing goals throughout the week.

Reliability

A manager that is leading a team has to be reliable. This means being available for your employees, getting things done that you said you would, and supporting your team however needed.

Delegation

If you don't know how to delegate projects and tasks, your role as a manager will be a lot more difficult. Don't be afraid to ask your employees to help complete a task. You might think it's easier to do everything yourself, but this will add more time to your already busy schedule, and you won't be allowing your employees to do what they were hired to do.

Confidence

To be an effective manager, you need to be confident in your abilities, experience, and decisions. This doesn't mean you have to be arrogant or feel that you're better than your employees. But you're in a management role for a reason, so be proud and be an inspiration to your team.

Respect for Employees

If you don't respect your employees, there will definitely be tension in your workplace. Be cognizant of their time and abilities, be able to listen and communicate with them, and be a resource of knowledge and guidance.

Role of management

Mintzberg (1973) suggested that rather than looking at the functions of managers, we should instead look at the roles they perform. Mintzberg identified ten roles that all managers perform and grouped these roles into three categories as shown in Figure 1.1.

Roles Category	Role
Interpersonal Role Interpersonal Role	Figurehead Figurehead
	Leader Leader
	Liaison Liaison
Information Role Information Role	The monitor Monitor
	Disseminator Disseminator
	Spokesman Spokesperson

Decisional Role	Entrepreneur Entrepreneur
Decisional Role	Disturbance handler Disturbance Handler
	Allocator Resource Allocator
	Negotiator Negotiator

Figure 1.1: The role of management

Interpersonal Role

A key aspect of a manager's job involves interacting with other people. In the role of **figurehead,** the manager represents the organization by performing ceremonial and symbolic activities. In the role of **leader** a manager will attempt to motivate, communicate with and influence people. As a **liaison** a manager develops relations with groups both inside and outside the organization. These groups could include customers, trade unions and government departments.

Information Role

Information is a very important resource of any organization. The **monitor** role refers to the acquiring of information from internal and external resources. The **disseminator** role refers to the transmitting of information to those who require it. As a **spokesman** a manager conveys information to groups outside the organization such as the media.

Decisional Role

The **entrepreneur** role involves the manger seeking out new ways to deal with problems and find opportunities for the organization. The **disturbance handler** role involves resolving conflicts between individuals and teams. In the **resource allocator** role the manager must make decisions on how to allocate resources such as money, people, materials and time, to best achieve the objectives of the organization. In the **negotiator** role a manager will negotiate with various interest groups such as customers, suppliers and other managers.

The objectives of the management

1. Optimum utilization of resources:

The most important objectives of the management are to use various resources of the enterprise in a most economical way.

The proper use of men, materials, machines, and money will help a business to earn sufficient profits to satisfy various interests i.e. proprietor, customers, employees and others. All these interests will be served well only when physical resources of the business are properly utilised.

2. Growth and development of business:

By proper planning, organization and direction etc., management leads a business to growth and development on sound footing. It helps in profitable expansion of the business. It provides a sense of security among the employers and employees.

3. Better quality goods:

The aim of the sound management has always been to produce the better quality products at minimum cost. Thus, it tries to remove all types of wastages in the business.

4. Ensuring regular supply of goods:
Another objective of management is to ensure the regular supply of goods to the people. It checks the artificial scarcity of goods in the market. Hence, it keeps the prices of goods within permissible limits.

5. Discipline and morale:
The management maintains the discipline and boosts the morale of the individuals by applying the principles of decentralisation and delegation of authority. It motivates the employees through monetary and nonmonetary incentives. It helps in creating and maintaining better work culture.

6. Mobilizing best talent:
The employment of experts in various fields will help in enhancing the efficiency of various factors of production. There should be a proper environment which should encourage good persons to join the enterprise. The better pay scales, proper amenities, future growth potentialities will attract more people in joining a concern.

7. Promotion of research and development:
Management undertakes the research and development to take lead over its competitors and meet the uncertainties of the future. Thus, it provides the benefits of latest research and technology to the society.

8. Minimize the element of risk:
Management involves the function of forecasting. Though the exact future can never be predicted yet on the basis of previous experience and existing circumstances, management can minimise the element of risk. Management always keeps its ears and eyes to the changing circumstances.

9. Improving performance:
Management should aim at improving the performance of each and every factor of production. The environment should be so congenial that workers are able to contribute their maximum to the enterprise. The fixing of objectives of various factors of production will help them in improving their performance.

Management as a science or an art

Management as a science
Management is Science because of several reasons like –

- It has universally accepted principles,
- It has cause and effect relationship etc,

Management as an art.
It is an art because it requires perfection through practice, practical knowledge, creativity, personal skills etc.

Management as a profession
A profession may be defined as an occupation that requires specialized knowledge and intensive academic preparations to which entry is regulated by a representative body. The essentials of a profession are:

- **Specialized Knowledge -** A profession must have a systematic body of knowledge that can be used for development of professionals. Every professional must make deliberate efforts to acquire expertise in the principles and techniques. Similarly a manager must have devotion and involvement to acquire expertise in the science of management.

- **Formal Education & Training -** There are no. of institutes and universities to impart education & training for a profession. No one can practice a profession without going through a prescribed course. Many institutes of management have been set up for imparting education and training. For example, a CA cannot audit the A/C's unless he has acquired a degree or diploma for the same but no minimum qualifications and a course of study has been prescribed for managers by law. For example, MBA may be preferred but not necessary.

- **Social Obligations -** Profession is a source of livelihood but professionals are primarily motivated by the desire to serve the society. Their actions are influenced by social norms and values. Similarly a manager is responsible not only to its owners but also to the society and therefore he is expected to provide quality goods at reasonable prices to the society.

- **Code of Conduct -** Members of a profession have to abide by a code of conduct which contains certain rules and regulations, norms of honesty, integrity and special ethics. A code of conduct is enforced by a representative association to ensure self-discipline among its members. Any member violating the code of conduct can be punished and his membership can be withdrawn. The AIMA has prescribed a code of conduct for managers but it has no right to take legal action against any manager who violates it.

- **Representative Association -** For the regulation of profession, existence of a representative body is a must. For example, an institute of Charted Accountants of India establishes and administers standards of competence for the auditors but the AIMA however does not have any statuary powers to regulate the activities of managers.

- Management is the process

- Management is the process of achieving organizational objectives by working with and through others in an ever-changing environment.

Fayol (1916) wrote that all managers perform five main management functions:

- **Planning:** Planning is an activity which involves making decision about ends.
- **Organising:** This is concerned with dividing and coordinating tasks.
- **Commanding:** This refers to the importance of leadership in organizations.
- **Controlling:** Controlling involves measuring actual performance against agreed standards and taking corrective action if necessary.
- **Co-ordinating:** This involves ensuring that all activities and groups are brought together to achieve the overall objectives.

Today these functions have been condensed down to the following four:

1. Planning
2. Organising
3. Leading
4. Controlling

1. Planning
Planning is concerned with where the organization wants to be in the future and how it is going to get there. The planning function includes defining an organization's goals, establishing an overall strategy for achieving those goals and developing a hierarchy of plans to co-ordinate all activities. Planning can be long term or short term and takes place at all levels in the organization.

2. Organizing
Organizing generally follows planning and it refers to deciding on an organizational structure, staffing it adequately and making sure the organization is running efficiently. Managers develop a framework of necessary tasks and available resources called an organizational structure. This structure sets out the groupings of staff organization. In simple terms organizing includes determining how tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom and where decisions are to be made.

3. Leading
Leadership involves motivating employees to achieve organizational goals. Leading entails creating a vision, communicating that vision and goals, and influencing others to achieve high levels of performance. It also involves directing the activities of others and resolving conflicts among employees.

4. Controlling
Activities within an organization don't always go as smoothly as planned. Controlling involves monitoring employee activities to determine whether or not they are achieving targets. It involves comparing actual performance against predetermined goals and taking corrective action if necessary.

Levels of management and managerial skills

Levels of management
The following are the three main levels of management:

1. Senior Management
2. Middle Management
3. Front Line Management

1. Senior Management
Senior management are concerned with strategic issues such as the mission and direction they will take into the future. They must make and implement strategic decisions and communicate these decisions to relevant parties such as the shareholders and customers.
Senior managers include the Chairperson, Chief Executive, Directors and members of the Board.

2. Middle Management
Middle management operates at a tactical level, translating strategic direction and organizational goals into tangible achievable objectives for their division. Middle management acts as a link between the strategic level and the operational levels. Examples of middle managers include Plant and Operations managers.

3. Front Line Management
This level of management, which is also referred to as "Supervisory Management" and "Operations Management", is responsible for directly managing and supervising employees

involved in the day-to-day operations of the organization. Front line managers operate between middle management and the operational personnel.

Team Leaders

In the traditional management hierarchy there are three levels of management as shown in Figure 1.2. In these traditional structures the line managers are responsible for the performance of non-managerial employees and have the authority to hire and fire workers, make job assignments and control resources. Williams, C. (2007) identifies a fourth kind of manager – the team leader. This new kind of management job has developed as companies have shifted to self-managed teams. Team leaders are responsible for facilitating team performance. Team leaders help their team members plan and schedule work, learn to solve problems and work effectively with each other. Team leaders act as a bridge between their own teams and other teams. Team leaders are also responsible for internal team relationships.

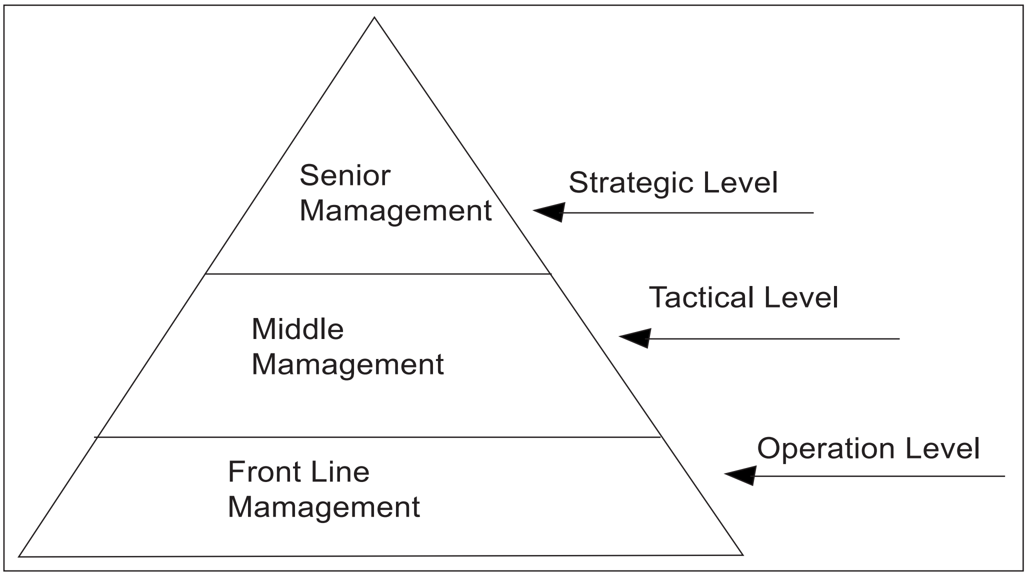


Figure 1.2 Three levels of management

Planning Horizon

A key task of managers at all levels is planning. However, the planning timeframe is different for each level. Senior managers plan for the long term, between 3-5 years. Middle managers focus on a mid-term timeframe, normally for up to three years. Front-line managers plan for the short term normally in term of weeks and months.

Horizontal levels of Management

The three levels of management discussed above are called vertical levels. Different types of management also occur horizontally across the organization. Functional departments such as marketing, operations, finance and human resources have their own functional managers who are responsible for activities within their department. The various management functions are discussed in Section 3 of this course manual.

Management skills

A manager should possess a range of skills in order to be successful. The skills required can be grouped into three categories (Katz, R. 1973):

- Technical Skills
- Human Skills
- Conceptual Skills

Technical Skills
Technical skills relate to the performance of specific tasks. It relates to expertise in specific organizational functions such as finance, operations etc. Technical skills could also include specialised knowledge and competencies with particular tools and techniques.
Technical skills are more important at lower levels of management.

Human Skills
Human skills are often referred to as interpersonal skills and include the ability to work with other people and work effectively in group situations. Human skills are concerned with a manager's ability to motivate, lead, communicate and resolve conflict. Human skills are important at all levels of management.

Conceptual Skills
Conceptual skills refer to the ability to think strategically, to take a long-term, broad view of the organization in its entirety and the relationship between each part.
Managers at all levels in the organization require conceptual skills but they are of greater importance at the senior levels.
In addition to these three categories of skills managers must be effective in a range of other skills such as verbal and written skills.

Effective Managers
According to research by John Kotter (1999), Effective Managers spend significant time establishing personal agendas and goals; both short and long-term. Effective managers spend a great deal of time building an interpersonal network composed of people at virtually all levels of the organization. Managers use their networks to execute personal agendas and accomplish their own goals.

To be an effective manager a person must have the necessary skills required to manage.
Characteristics of Effective Managers

Bateman and Zeithamal (1993) proposed the following three characteristics of effective managers or leaders:

- Active Leadership
- Ability to Motivate Others
- Opportunity of High Performance

Active Leadership
Active leaders are those who take a hands-on role. They make an active contribution to the team effort.

Ability to Motivate Others
Effective managers are able to motivate others to achieve the organization's goals. They communicate to workers the importance of these goals and the performance required to achieve the goals.

Provide Opportunity of High Performance
To be able to achieve a high level of performance; managers must have autonomy and control over their area of work. Having control over resource and decision-making is crucial to the effectiveness of managers.

Mistakes managers make

Another way to understand what it takes to be a manager is to look at the mistakes managers make. Based on studies of US and British managers, Williams, C. (2007) identifies the following top ten mistakes that managers make:

- Insensitive to others; abrasive, intimidating; bullying style
- Cold aloof, arrogant
- Overly ambitious: thinking of the next job, playing politics
- Specific performance problems with the business
- Over-managing; inability to delegate
- Unable to staff effectively
- Unable to think strategically
- Unable to adapt to a boss with a different style
- Over-dependent on advocate or mentor

Common business analysis techniques such as SWOT and PEST

1. PESTEL

A PESTEL analysis is an acronym for a tool used to identify the macro (external) forces facing an organization. The letters stand for Political, Economic, Social, Technological, Environmental and Legal. Depending on the organization, it can be reduced to PEST or some areas can be added (e.g. Ethical)

Let's look at each element of a PESTEL analysis.

Political Factors:

These determine the extent to which government and government policy may impact on an organization or a specific industry. This would include political policy and stability as well as trade, fiscal and taxation policies too.

Economic Factors:

These factors impact on the economy and its performance, which in turn directly impacts on the organization and its profitability. Factors include interest rates, employment or unemployment rates, raw material costs and foreign exchange rates.

Social Factors:

These factors focus on the social environment and identify emerging trends. This helps a marketer to further understand their customers' needs and wants. Factors include changing family demographics, education levels, cultural trends, attitude changes and changes in lifestyles.

Technological Factors:

These factors consider the rate of technological innovation and development that could affect a market or industry. Factors could include changes in digital or mobile technology, automation, research and development. There is often a tendency to focus on developments only in digital technology, but consideration must also be given to new methods of distribution, manufacturing and also logistics.

Environmental Factors:

These factors relate to the influence of the surrounding environment and the impact of ecological aspects. With the rise in importance of CSR (Corporate Sustainability Responsibility), this element is becoming more important. Factors include climate, recycling procedures, carbon footprint, waste disposal and sustainability

Legal Factors:
An organization must understand what is legal and allowed within the territories they operate in. They also must be aware of any change in legislation and the impact this may have on business operations. Factors include employment legislation, consumer law, health and safety, international as well as trade regulation and restrictions.
Political factors do cross over with legal factors; however, the key difference is that political factors are led by government policy, whereas legal factors must be complied with.

1. SWOT analysis
With a SWOT analysis (opposed to a TOWS: Threats, Opportunities, Weaknesses, Strengths), we start by looking at the internal factors first.

Strengths can be identified by asking what advantages the organization has and what its unique selling proposition (USP) is. It describes what an organization excels at and what separates it from the competition: a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors. It is important to consider what other people in your market see as your strengths i.e. a brand name, patient or a workforce with a particular skillset.

Weaknesses would include: what your organization could do to improve, what you should avoid (be it due to brand name/reputation, resource etc.) and what factors ultimately lose your organization sales.

When identifying strengths and weaknesses, it's important to compare your organization to its competitors. Some of your proposed strengths could be a necessity in your organization's market and therefore not actually a strength.
It's also critical to be honest! Lack of honesty is a common pitfall in undertaking a SWOT analysis, so remember this is an internal document that is being used to critically assess your current position.
Utilizing realistic information will ensure that a high-quality output is achieved.
Once you've identified the internal factors, you need to move onto the macro factors – these are external opportunities and threats. You can use a PESTEL analysis to ensure you've covered all the factors. A PESTEL analysis identifies Political, Economic, Social, Technological, Environmental and Legal factors – these are all based on the macro environment.

For **the opportunities section**, you need to identify what good opportunities are open to your business – some of these will come via the organization's strengths. They refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market share. You may find that through the PESTEL analysis you identify some interesting trends.

And finally, your SWOT analysis should assess your **threats**. They refer to factors that have the potential to harm an organization. What are the threats facing your business right now, and what are your competitors doing? For example, how is technology affecting your business? For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply and so on.

Develop Plans

This stage involves developing the plan to achieve the desired objectives. The objectives are the ends and the strategy is the means. The strategic plan will consist of a number of planned actions to address such issues as: how to satisfy customer needs, how to overcome rivals, how to respond to changing market conditions and how to develop specific organizational capabilities. Two important steps in strategic planning are SWOT Analysis and evaluating alternative strategies.

MOST analysis

The idea behind MOST is that it will help you to organize your activities in support of each other so they are all heading in the same direction. Without this kind of cohesion between your activities, the future can suddenly look bleak.

MOST Analysis is made up of four elements –

M – Mission
O – Objectives
S – Strategy
T – Tactics

The tool is meant to work from the top down, with each successful point becoming a little more specific as it goes. Let's take a quick look at each of the four elements of the MOST Analysis tool to better understand how they can drive your organization forward.

Mission

Basically, this is the main purpose of the business plan that we discussed above. It should be the top-level, overall reason for being in business in terms of what you want to accomplish. The more specific that you can be when defining your mission, the more success you will have later on trying to define the remaining points within the tool.

For example, imagine that you own a dry cleaning business. You could state that your mission is to be the best possible dry cleaning business that you can be and impress each customer that comes through the door. That might sound good, but what does it mean? Those kinds of goals won't really give you any direction to go on. Instead, something like being the top dry cleaning business within your city is far more attainable and tangible. If you are bringing in the most business and getting the best reviews in your city for dry cleaning companies, you will know you have reached your goal. Then, you can frame the rest of your thinking around trying to make this happen.

Objectives

Your objectives are one step down from your mission. Think of these are a collection of individual goals that will add up to reaching your overall mission. Just like with the mission, objectives should be specific enough to guide your decision making and planning for the future. With your mission in place, it should be relatively easy to develop a list of a few objectives.

To continue the previous example, you need to highlight objectives that will outline how you can become the best dry cleaner in the city. Some possibilities might be to grow sales by 5% each month, attract 'x' number of customers to switch from your competition, or receive a certain number of reviews online. Your objectives should be measurable so you can evaluate the methods you used to try and reach them and determine whether you have succeeded or not.

Strategy
These are the things you are going to do in order to reach your objectives. What actions should be taken in order to accomplish your objectives, and in turn, your mission? Keeping up with the example we have been using, the following are a few sample business strategies that could be used:

- Run a promotion to entice new customers to switch from your competition, such as offering to beat any rate by 10%
- Invest in new advertising channels such as paid online advertisements or local radio
- Offer benefits to customers who take the time to leave a review about your business

The strategies that will work for your business are going to vary wildly depending on your market and target demographic. However, the idea is the same for any organization – build a list of strategies that further your pursuit of the objectives you have already highlighted. This is not a time to be vague. Your strategies should be specific and actionable.

Tactics
The final point in the MOST tool are the tactics that you will use to enact your strategies. Your tactics should be the specific details that will guide your daily activities. So, if you are going to run radio ads as mentioned in the previous example, some tactics would include writing a script, hiring a voice over artist, contacting radio stations, etc. Using your tactics to dictate your daily activities is the best way to make sure what you are doing today will guide you in the right direction toward your overall mission.

There is a cohesion between each step along the MOST Analysis that is important and should be considered carefully. One step builds on the next, and that consistency is what makes this a valuable tool. Many organizations get lost somewhere between the mission and the tactics, so do a careful review of your processes to make sure that you don't fall into that trap. As long as you are able to outline a logical progression for your business from one step to the next, the end result should keep you pointing in the right direction.

CATWOE Analysis
CATWOE was defined by Peter Checkland as a part of his Soft Systems Methodology (SSM). It is a simple checklist for thinking. It is one of the generic techniques that Business Analyst use to identify the what the business is trying to achieve, what are the problem areas and how is the solution going to affect the business and people involved in it.
There are six elements of CATWOE:

1. Clients
Customers or clients are stakeholders who are the users of the system or process. These are the people who'll benefit of suffer due to the change in the system/process. The first step in a CATWOE analysis is to identifying such customers and understanding how the process or system affects them.
Few Helpful Questions would be:

- Who is on the receiving end?
- What problem do they have now?
- How will they react to what you are proposing?
- Who are the winners and losers?

In the above mentioned example, employees are at the receiving end. Due to the present manual system, they are facing the problem of long processing time for application and tedious job of tracking their application. There could be mixed reaction from the employees on this change. The people familiar with the computer technology may be happy but the senior citizens who are not comfortable with computers might resist the change.

2. Actors

These are the people involved in the implementation of the changes in the system/changes. Few Helpful Questions would be:

- Who are the actors who will 'do the doing', carrying out your solution?
- What is the impact on them?
- How might they react?

3. Transformation

These are the changes that the system or process brings about. A CATWOE analysis requires listing the inputs and the nature of change inputs undergo to become outputs. Few Helpful Questions would be:

- What is the process for transforming inputs into outputs?
- What are the inputs? Where do they come from?
- What are the outputs? Where do they go to?
- What are all the steps in between?

4. Weltanschauung

Weltanschauung, also known as "Worldview" is the big picture and the wider impact of the transformed system/process. The system/process is analysed to come up with the positive and negative impact on the overall business. This is the most crucial step in CATWOE analysis as different stake holders have different approaches to the same issue. The primary difference in the CATWOE analysis prepared by each stakeholder lies in Weltanschauung, and the purpose of a CATWOE analysis is to make explicit such different worldviews. Few Helpful Questions would be:

- What is the bigger picture into which the situation fits?
- What is the real problem you are working on?
- What is the wider impact of any solution?

5. Owner

These are the Decision makers who have the authority to make the changes, stop the project, or decide on whether to go ahead with the change. Few Helpful Questions would be: Who is the real owner or owners of the process or situation you are changing?

- Can they help you or stop you?
- What would cause them to get in your way?
- What would lead them to help you?

6. Environmental constraints

These are the external constraints and limitation affecting the success of the solution. These can be ethical limits, regulations, financial constraints, resource limitations, limitations of project scope, limits set by terms of reference and others.
Few helpful questions would be:

- What are the broader constraints that act on the situation and your ideas?
- What are the ethical limits, the laws, financial constraints, limited resources, regulations, and so on?
- How might these constrain your solution? How can you get around them?

The challenges that arise in the contemporary business environment and its dynamic

The sectors of the business environment

Businesses do not operate in a vacuum but rather in a dynamic environment that has a direct influence on how they operate and whether they will achieve their objectives. This external business environment is composed of numerous outside organizations and forces that we can group into seven key sub-environments: economic, political and legal, demographic, social, competitive, global, and technological. Each of these sectors creates a unique set of challenges and opportunities for businesses.

Business owners and managers have a great deal of control over the internal environment of business, which covers day-to-day decisions. They choose the supplies they purchase, which employees they hire, the products they sell, and where they sell those products. They use their skills and resources to create goods and services that will satisfy existing and prospective customers. However, the external environmental conditions that affect a business are generally beyond the control of management and change constantly. To compete successfully, business owners and managers must continuously study the environment and adapt their businesses accordingly.

1.5.2. The Challenge of Globalization

Globalization is the international integration of intercultural ideas, perspectives, products/services, culture, and technology. Globalization is a hot topic in the business world today, garnering enormous attention as imports and exports continue to rise with companies expanding across the global marketplace. Understanding the basic overview of the global economy underlines highly relevant managerial and business level applications that provide useful insights to modern-day managers.

Globalization is also an influential modern topic that highlights the growing interdependence between different countries worldwide, necessitating managers to appropriately incorporate this trend within their strategies. The speed of modern globalization is often attributed to technological developments in communication and transportation, tasking managers with appropriately leveraging these technologies internally. Multinational companies cumulatively employ nearly half of the world's population, creating a need for managers with a strong international awareness. Managers must understand that some processes can be performed universally and internationally, while others must be done in a localized fashion to adhere to each specific region's tastes and customs.

Critics of globalization cite the way in which it motivates an international culture over established domestic ones, as well as the negative environmental effects that result from business expansion. Being mindful of the potential opportunities in a global economy, along with knowledge of how to localize and sidestep the negatives in an international marketplace, can capture large value for effective managers.

The Challenge of Ethics and Governance
Ethics is at the core of corporate governance, and management must reflect accountability for their actions on a global community scale.
Firms which do not adhere to ethical standards and social responsibilities are not accepted by the society. It is, therefore, a challenge for managers to define relationships with the social environment. Organization that violates social expectations has the risk of legal interference, loss of goodwill and even loss of business.
Business itself cannot be ethical: only the managers and corporate strategists can implement ethics within the framework of the business strategy.

Corporate ethics and shareholder desires for profitability are not always aligned, and it is the responsibility of executive management to ensure ethics supersede profitability.
In its simplest form, corporate ethics is a legal matter. Abiding by laws protecting workers' rights and appropriate compensation is a top priority for management.
Corporate governance and ethics become more difficult with the indirect implications of particular practices, making it important to assess the way in which certain operations may adversely affect the community at large.
Managers are the primary decision makers, and therefore must hold themselves accountable for the way in which a business operates and affects stakeholders, shareholders, employees, and the community at large.

The Challenge of Diversity
Globalization demands a diverse workforce, and assimilating varying cultures, genders, ages, and dispositions is of high value.
Diversity poses various challenges in communication, from differences in language to differences in culture. Understanding these cultural differences and what they may accidentally communicate is critical to effective communication.
Majority cultures have a tendency to create a homogeneous environment, possibly limiting the potential diverse opinions can provide.

Groupthink is a threat of which managers must be aware, particularly in meetings where dominant opinions steal most of the spotlight. Different perspectives are where the highest value can be captured in diverse environments.
Though diversity offers competitive advantage in terms of cost, resource acquisition, marketing, creativity, problem-solving and systems flexibility, it also becomes a source of conflict in many organisations.

The organisations, therefore, face the challenge of addressing a variety of issues, opportunities and problems created by the diverse workforce. In the globalized world, diversity cannot be avoided. Managers have to radically devise means to overcome the problems of diversity. Though largely it has been done, problems, if any, have to be overcome.
The ability to manage diversity, as well as refine actions to communicate accurately and intentionally, are valuable and necessary aspects of effective management.

The Challenge of Technology
Technology management is crucial in offsetting the risks of new technology while acquiring the operational benefits it provides.

Managing new technology requires a thorough understanding of business technology

management, which consists of four general parts. Managers must understand how to achieve internal efficiency by applying new technology to operational processes.
Businesses should create strategic business units focused solely upon managing a company's technological strategy. Keeping pace technologically requires extensive research and strategic analysis of the potential value of acquiring innovations.

Implementing new technology requires retraining staff and eliminating the natural friction that results from making operational changes. Managers should be aware of the value in research, development, and forecasting future technological innovations to keep ahead of the competition. There is also the challenge of information technology. Information technology "refers to the resources used by an organisation to manage information that it needs to carry out its mission". Information is an important part of communication and managers have to be careful in selecting the amount and type of information (out of the large quantity of information available) for carrying out the business operations. Lack of control over use of information can result in lack of control over business operations.

Managers have to carefully collect the right information, use it effectively and ensure that right information is leaving the organisation to enter the environment. Management Information System (MIS) has largely taken care of this.

The Challenge of Competition
Managers must understand a company's competitive advantage and build a strategy that takes into account the competitive landscape.
Managers must know their business's strengths and integrate them into the appropriate strategy to remain competitive.

Low-cost strategies are when companies sell a product or service at the lowest possible price point to stay competitive. Differentiation is an alternative strategy to low cost in which companies fill a specific need that is not being filled or generate a brand image that increases their value-added proposition. High quality is the antithesis of low cost; instead of efficiency, the strategy focuses on effectiveness, creating the best possible product to capture market share.
Companies also compete internally, either developing naturally competitive products or battling for funding based upon unit success.
Managers must understand all of these competitive strategies and align them with their perceived strategic advantage to stay competitive.

The Challenge of Quality and Productivity
Companies compete with international competitors with respect to quality and productivity of goods and services. Successful companies have been able to maintain and enhance the quality of goods and services with fewer resources (productivity). Managers must, therefore, focus on producing more and better with fewer resources.
Quality is "the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs". Productivity is "an economic measure of efficiency that summaries the value of outputs relative to the value of the inputs used to create them". Quality and productivity are important determinants of business that affect its success.

Challenge of Ownership

Another area that concerns managers is ownership. Large foreign investors are buying stocks of home companies and ownership can be transferred in their hands. Profitability and productivity, thus, may suffer.

Challenge of Strategy Formulation

Just as everything around is constantly changing, business firms must watch the strategies and strategic management. Strategies keep changing according to environmental changes. "Strategic management is a way of approaching business opportunities and challenges—it is a comprehensive and ongoing management process aimed at formulating and implementing effective strategies."

It keeps managers constantly involved and promotes healthy interaction between the organisation and the environment. Managers who frame effective strategies will remain in the market and those who fail to do so will leave the market. Strategy formulation, therefore, requires constant attention of contemporary managers.

Challenge of Change

Change is a continuous process. If firms want to compete in the complex, dynamic and diverse environment as they are facing today, where expectations from managers and their organisations are on an ever increase, they must accept the changes that confront their everyday life.
Firms which do not change their operations with the changing environment (internal and external) may have to close their operations. Managers have to continuously respond to change and look to future with hope and optimism.

Challenge of Empowerment

Though management is 'the art of getting things done through others,' the others/subordinates will not do things if they have to merely carry out the orders and instructions of managers. Workers want more information about the organisation to perform and control their jobs. Participative decision-making and formation of groups and work teams help in fulfillment of individual, group and organisational goals.
The basic requirement, therefore, is to communicate with the external environment and their workforce. Communication is a major task of managers today. They must convey organisational goals to individuals and understand their individual goals, in turn. Failure to do so will result in loss of empowerment. This will affect organisational goals, both quantitative and qualitative.

Study Unit 2

Management

Contents

1. The fundamental principles and theories on which business management is based
2. The contributions of management within a modern business organization
3. The challenges involved in effective business management
4. Functions of Management
5. The role of Human Resource management within the organization and the associated challenges that may arise

2.1. The fundamental principles and theories on which business management is based

Evolution of Management Theory

Management may only have been a field of study for the last 100 years, but management principles have guided how work has been done for over 5,000 years.

From the ancient Egyptians, Greeks, Chinese and Romans to modern times, leaders have used planning, organising, leading and controlling to accomplish all types of tasks, from the daily duties to large civil engineering projects.

Work has shifted from families and self-organised groups of skilled labourers, to large factories employing thousands of individuals that use large standardised mass production. As these organizations developed, managers were needed to enforce order and structure, to motivate and direct large groups of workers, and to plan and make decisions that optimised overall performance (Williams, C. 2007).

There are a number of key phases in the development of management theory over the last 100 years. Some of the key approaches are shown Figure 2.1.

Classical Approaches		Date when approach began
	Scientific Management	1898
	Bureaucracy Management	1916
	Administrative Management	1920s
	Human Relations Management	1927
Modern Approaches		
	System theory	1950s
	Contingency theory	1960s
	Total quality Management	1970s
	Organizational Culture	1980s

Figure 2.1: The evolution of Management thought (Tiernan, Morley & Foley, 2001)

Classical management theories

The study of management theory began around the start of the twentieth century. Mass production and the development of large industries gave rise to demand for a way to manage these organizations and increase labour productivity.
The key elements of the classical management approach are:

- Scientific Management
- Bureaucracy Management
- Administrative Management
- Human Relations Management

1. **Scientific Management**

Fredrick Taylor (1865-1915) is credited as one of the founders of scientific management. In his book "The Principles of Scientific Management" in 1911, he emphasised the need to take a more scientific and systematic approach to management.

The main elements of Taylor's approach were:

- A "work study" or systematic analysis of the production process followed by the breaking of jobs into a number of key tasks with each task to be performed separately.
- All planning was taken over by management, leading to workers losing control over how their work was done.

  Workers were issued with work instructions that set out:

- What needed to be done
- How it should be done
- How long it should take

  Select workers that were most suitable for the job and train them.

- Provide workers with financial incentives by results based payments - a piece rate system.

Scientific Management led to increased labour productivity from workers who specialised in one simple repetitive task. Replacing skilled workers with non-skilled workers could also reduce labour costs.

Scientific management could also lead to deskilling of workers that may result in dissatisfaction among workers and low levels of motivation, which could adversely affect productivity.

This approach was also accused of dehumanizing of workers – treating them as if they were machines.

1. Scientific Management after Taylor

Three followers of scientific management were Frank and Lillian Gilbreth and Henry Gantt. The Gilbreth's followed on from Taylor's work on work-study by analysing bricklayer's movements. From their work on task or method study they were able to reduce the movements of a bricklayer. Flow charts were devised by the Gilbreths to enable whole processes or operations to be analysed.

Henry Gantt a contemporary of Taylor felt that the individual worker was not given enough consideration. Gantt introduced a payment system where performance below that described on a workers instruction card still qualified that person for the day rate but performance of all work on the instruction card qualified the individual for a bonus. The Gantt chart was initially used to graphically represent tasks achieved. See Chapter 7 for a description of a Gantt chart.

Overall the most important outcome of scientific management was that it stimulated ideas for improving the systematic analysis of work at the workplace. The disadvantage of scientific management is that it subordinated the worker to the work system.

2. Bureaucratic Management

Max Weber (1864-1920), a German theorist put forward the idea of the Bureaucratic organization with its pyramid structure and chain of command with the senior manager at the top. Weber felt that bureaucracy was indispensable for the needs of large-scale organizations and that this form of organization exists to a greater or lesser extent in practically every business and public enterprise.

The six main elements of Weber's approach were:

- **Division of Labour**: The division of labour allowed specialisation, responsibility and authority to be defined, which led to increased efficiency.
- **Hierarchy**: Authority was centralised at the top of the organization and positions were organised in a hierarchy structure. The degree of one's authority depended on the position you occupied in the hierarchy.
- **Selection**: Weber believed that jobs should be filled according to technical skill and expertise of the individual rather than through favouritism.
- **Career Orientation**: Management was considered a professional career that did not necessarily involve future ownership in the company.
- **Formalisation**: Roles and procedures were developed to guide the way things are done, rather than ad-hoc decision-making.
- **Impersonality**: Rules and procedures applied to all employees regardless of their position in the hierarchy.

Today the term bureaucracy has tended to take on a negative meaning, as it is often associated with excessive administration, overstaffing, inefficiency, rigid rules and procedures.

3. Administrative Management

Administrative management focused on the whole organization rather than solely on the employees. Henry Fayol (1841-1925) was one of the pioneers of administrative management. In contrast to Taylor who focused on the bottom of the organization, Fayol's focus was on management. The main task of the organization head, according to Fayol, was forecasting and planning.

Fayol believed that all activities in a business could be split into the following six groups:

- **Technical** (Production)
- **Commercial** (Buying and selling)
- **Financial** (Accessing and using capital)
- **Security** (Guarding property)
- **Accounting** (Costing and stock-taking)
- **Managerial** (Planning, organising, controlling, commanding and coordinating)

Fayol believed that all six groups of activities were dependent on each other, and that they all needed to be run effectively for the business to prosper. During his career Fayol developed the following fourteen principles of management, which he believed could be applied to any organization:

- **Division of Work**: Specialisation leads to efficiency as workers develop practice and familiarity.
- **Authority and Responsibility:** The right to give orders should not be considered without reference to responsibility.
- **Unity of command**: Employees should only receive orders from one superior or a manager.
- **Discipline**: Clear defined rules and procedures to ensure order and proper behaviour.
- **Unity of direction**: One head and one plan for group activities.

- **Subordination:** Subordination of the individual interest to group interest.
- **Remuneration:** Pay should be fair and satisfactory to both the employee and the firm.
- **Centralisation:** May be present depending upon the quality of management and size of the organization.
- **Scalar chain:** This is the line of authority from the top of the organization to the bottom.
- **Order:** A place for everything and everything in its place.
- **Equity:** A combination of kindness and justice to employees.
- **Stability of tenure**: Employees need time to settle into their jobs and feel secure.
- **Initiative:** All levels of the organization's staff should be encouraged to show initiative.
- **Espirit de corps:** Teamwork and team spirit should be encouraged.

4. Human Relations Theory

While the classical theorists were principally concerned with the structure and mechanics of the organization, the theorists of the humanistic school were interested in the human factor.

The human relations movement emphasised the necessity to satisfy employees' basic needs in order for employee productivity to be increased. They believed that if workers are happy they will work harder.

The turning point in the development of the human relations movement came with the famous Hawthorne experiments at the Western Electric Company's Hawthorn plant in Illinois (1924-32). Elton Mayo and Fritz Roethlisberger carried out these experiments.

There were four main phases to the Hawthorne experiments:

- The illumination experiment,
- The relay assembly test room experiment,
- The interviewing programme,
- The bank wiring observation room experiment.

The illumination experiment divided the workers into two groups, an experimental and control group. Lighting levels fluctuated with one of the groups whilst the lighting with the other group remained constant.

The results of the tests were inconclusive as production in the experimental group varied without any relationship to the level of lighting, but actually increased when conditions were worse. They concluded that there was no simple cause and effect relationship between illumination and productivity and the increase in output was due to the workers being observed. This phenomenon was called the Hawthorne Effect, where workers were influenced more by psychological and social factors (observation) than by physical and logical factors (illumination).

In the relay assembly test room the work was boring and repetitive. Six women were transferred from another department to the assembly room where a number of tests were carried out including altering hours, rest periods and the provision of refreshments. The observer consulted regularly with the women, listened to their complaints, and kept them informed.

All of the changes to their conditions except one yielded an increase in production and so the conclusion drawn was that the attention paid to the workers was the main reason for the increased productivity.

The interviewing programme was conducted using prepared questions regarding workers feelings towards supervisors and their general work conditions. The result of the programme has given impetus to present day personnel management, counselling interviews and the need for management to listen to the workers.

The bank wiring observation room was centred around a group of fourteen men. It noted that the men formed their own informal organization with sub groups or cliques. Despite financial incentive the group decided on a level of output below the level they were capable of producing; group pressures were stronger than financial incentives.
The main finding of the Hawthorn experiments is that workers increased their productivity simply because their needs were being catered for as part of the experiment. They were consulted about their part in the work and made to feel special.

Human relations writers demonstrated that people go to work to satisfy a complexity of needs and not simply for monetary reward.
Two other key contributors to the human relations approach were Abraham Maslow (1908-1970) and Douglas McGregor (1906- 1964).

Maslow proposed that people seek to satisfy a series of needs that range from basic needs such as food and shelter, to high level needs such as "self actualisation".
Maslow's theory is covered in detail in Chapter 4.
McGregor questioned the assumptions made about workers in the past such as they disliked work and had to be directed and controlled. McGregor believed that organizations should harness the imagination and intellect of workers. His Theory X-Y is covered in detail in Chapter 4.
Other Contributors to the Classical Approach to the Study of Management
Two other important contributions to the study of management were:

- **Mary Parker Follett's** theories of constructive conflict and coordination.
- **Chester Barnard's** theories of cooperation and acceptance of authority.

5. Constructive conflict and coordination: Mary parker Folletth
Mary Parker Follett is often called the "mother of management". Her many contributions to modern management include the ideas of negotiation, conflict resolution and power sharing.
She believed that conflict could be a good thing and that it should be embraced and not avoided. She said that conflict is "the appearance of difference, difference of opinion and of interests". She identified three ways of dealing with conflict:

- **Domination**: An approach to dealing with conflict in which one party deals with the conflict by satisfying its own desires and objectives at the expense of the other party's desires and objectives.
- **Compromise**: An approach to dealing with conflict in which both parties deal with the conflict by giving up some of what they want in order to reach agreement on a plan by reducing or settling the conflict.
- **Integrative conflict resolution**: An approach to dealing with conflict in which both parties deal with the conflict by indicating their preferences and then working together to find an alternative that meets the needs of both parties.

Follett believed that integrative conflict resolution was superior to the other methods used because it focused on developing creative methods for meeting conflicting parties' needs.
Follett used four principles to emphasise the importance of coordination where leaders and workers at different levels and in different parts of the organization directly coordinate their efforts

to solve problems and produce the best overall outcomes in an integrative way.
These principles are:

- **Coordination in relation to all factors in a situation:** Because most things that occur in an organization are related, managers at different levels and at different parts of the organization must coordinate their efforts to solve problems and produce the best overall outcome.
- **Coordination by direct contact with the people concerned:** Working with those involved or affected by the organization problem or issue will produce more effective solutions.
- **Coordination in the early stages:** The direct contact should be early in the process before people's views have become crystallised – they can still modify one another's views.
- **Coordination as a continuous process:** The need for coordination is never ending. The very process of solving a problem is likely to result in the generation of new problems to solve.

Follett's work significantly contributed to modern understandings of the human, social and psychological sides of management.

6.Cooperation and acceptance of authority: Chester Barnard
The former president of the New Jersey Bell Telephone Company, Chester Barnard, emphasized the critical importance of willing cooperation in organizations and said that managers could gain workers' willing cooperation through three executive functions:

- Securing essential services from individuals (through material, nonmaterial and associational incentives).
- Unifying members of the organization by clearly formulating the organization's purpose and objectives.
- Providing a system of communication.

Barnard's definition of an organization relies heavily on his comprehensive theory of cooperation. He defined an organization as "a system of consciously coordinated activities or forces created by two or more people".
Finally, most managerial requests or directives will be accepted because they fall within the zone of indifference, in which acceptance of managerial decisions are automatic. In general people will be indifferent to managerial directives or orders if:

- They Are understood
- They Are consistent with the purpose of the organization
- They Are compatible with the people's personal interests
- They Can actually be carried out by those people

Rather than threatening workers to force cooperation, Barnard maintained that it is more effective to induce cooperation through incentives, clearly formulating organizational objectives, and effective communication throughout the organization. Ultimately, he believes that workers grant managers their authority, not the other way around.

Contemporary management theories
Since the 1950s, modern approaches to the study of management have tried to build on and integrate many of the elements of the classical approaches to provide a framework for managing modern organizations. This section concentrates on the following four important approaches:

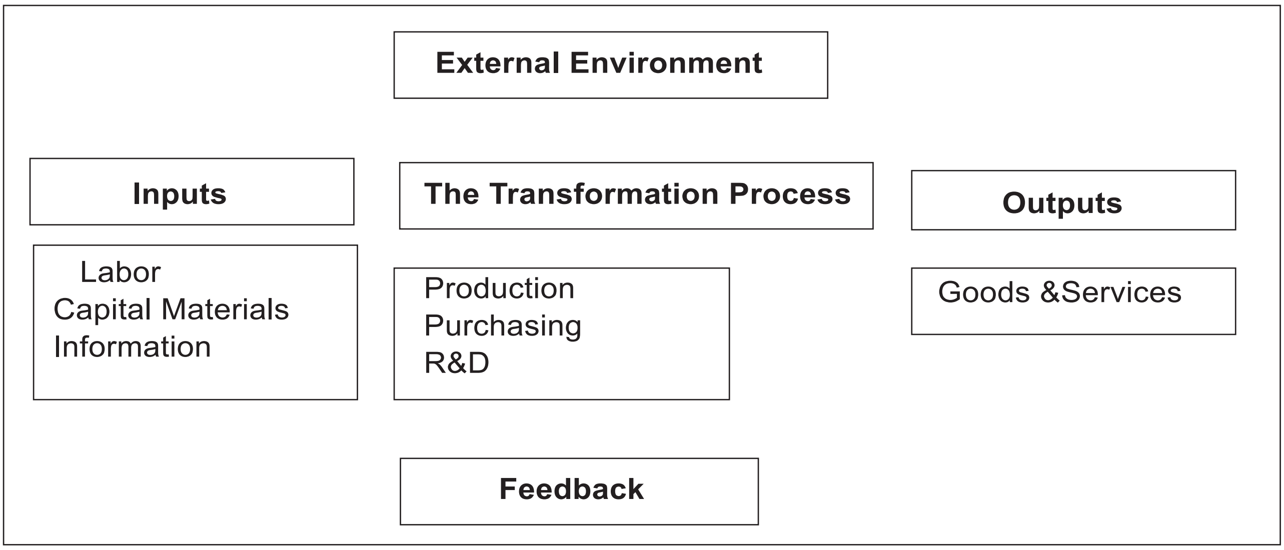
- System Theory
- Contingency Theory
- Total Quality Management
- Organizational Culture

1. System Theory

System theory focuses on the analysis of organizations as systems with a number of interrelated sub systems and also an external environment that affects organizational performance (See Figure 2.2).

One of the key elements of system theory is that the organization should be viewed as an **open system** with a range of inter-dependencies and both an internal and external environment. In contrast a closed system is one which focuses only on the internal environment of the organization. Because organizations are open systems, they need to understand and anticipate the external environment if they are to survive.

Organizations also need to consider the subsystems within the business as **synergies** that can be achieved when all systems are working together (the whole being greater than the sum of its parts). Another aspect of system theory is called **entropy**; this refers to the tendency of systems to collapse and die if they don't receive new impetus from the external environment.



2. Contingency Theory

One of the limitations of many traditional management theories was that it was assumed that they apply to all situations. The contingency theory suggests that there is no single way to organise or manage. So when managers try to answer the questions outlined below, the contingency approach to management assumes there is no universal answer because organizations, people and the external environment vary widely and are constantly changing.

- Should we have a functional or divisional structure?
- Should we have narrow or wide spans of control?
- Should we have centralized or decentralized decision making?
- Should we have an organic or mechanistic structure?
- Should we have a simple versus complex control systems?
- Should we pursue a task focused or people focused style of leadership?

The contingency approach proposes the view that there are contingencies and variables that exist in most business situations and an analysis of these contingencies will assist managers in selecting the best course of action in a particular situation. The main factors or contingencies, which a manager should consider are:

- Production technology
- Size of the organization
- Organization structure
- Economic environment; in particular market competition and technological change

For example, according to the contingency view a stable external environment would suggest a centralized structure with an emphasis on standardized rules and procedures in order to achieve efficiency and consistency. On the other hand, an unstable environment suggests a decentralized structure to achieve flexibility and adaptability.
The most appropriate structure and systems of management are dependent upon the contingencies of the situation for each particular organization.

3. Total Quality Management (TQM)
The quality movement is associated with the Japanese economic renaissance after World War II. TQM is an approach based on the use of quality concepts developed in Japan. The aim of TQM is to minimise waste and reworking by achieving zero defects in the production process. Two of the best-known writers on the TQM approach are Deming and Juran.
Deming identified a number of points that were essential ingredients for achieving quality within the organization. These include:

- Organizations should cease to rely on inspection to ensure quality.
- Quality should be built into every stage of the production process.
- The cause of inefficiency and poor quality lay with the systems used and not with the people using them.
- It was management's responsibility to correct the systems in order to achieve high quality.
- Deming also stressed the importance of reducing deviations from standards. Juran believed that quality revolved around three areas:
    - Quality planning to identify the key processes capable of achieving standards.
    - Quality control to highlight when corrective action is necessary.
    - Quality improvement to identify ways of doing things better. The TQM approach involves a number of steps:
        - Find out what the customer wants,
        - Design products /services that meets/exceeds customer requirements,
        - Design quality into the work processes so that tasks are done correctly,
        - Monitor performance,
        - Expand the approach to suppliers and distributors.

4. Organizational Culture

An organizational culture is the shared values, beliefs and assumptions held by members of the organization and are commonly communicated through symbolic means. Schiein (1985) defines organizational culture as:

“The pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration”.

Organizational culture can be described as consisting of four layers:

- **Values:** These may be easy to identify in an organization as they are often written down as statements about the organization’s mission, objectives or strategy. However, they often tend to be vague such as “service to the community”.
- **Beliefs:** These tend to be more specific but again there are issues, which people in the organization can bring to the surface and talk about. They might include the belief that the company should not trade with a particular country.
- **Behaviors:** These are the day-to-day ways in which an organization operates and can be seen by people both inside and outside the organization. This includes the work routines, and how the organization is structured and controlled.
- **Taken for granted Assumptions (paradigm):** These are the core of an organization’s culture. They are the aspects of organizational life which people find difficult to identify and explain. For an organization to operate effectively there has to be a generally accepted set of assumptions. These assumptions can underpin successful strategies and constrain the development of new strategies.

The culture of an organization develops over time from a number of interdependent influences:

- Firstly, it is developed by the prevailing **national culture** which influences attitudes to work, authority, equality and a number of other important factors that differ from one location to another. These values will change over time, and may even vary between different regions in larger countries. Organizations that operate internationally have the added problem of having to deal with many different national cultures.
- The second major influence is the **nature of the industry**, which acts as a determinant of an organization’s culture. Specific industries contain cultural characteristics which become manifested in an organization’s culture. Gordon (1991) argues that organizational culture is shaped by the competitive environment and the degree to which the organization is in a monopoly situation or faced by many competitors. Similarly customer requirements in the form of reliability versus novelty shape an organization’s culture.
- Finally society holds certain expectations about particular industries, which influence the values adopted.
- The final element shaping an organization’s culture is **the role of the founder** of the organization. Founder members shape organizational culture by their own cultural values, which they use to develop assumptions and theories in establishing organizations.

Organizational culture is therefore developed from three interdependent sources all of which influence the beliefs, values and assumptions of the organization.

A number of books published in the early 1980s sought to explain why some organizations were more successful than others and pointed at aspects of culture, which they argue, contributed to organizational performance.

Peters and Waterman (1982) focused on the relationship between organization culture and performance. They chose a sample of highly successful organizations and tried to describe

the management practices that led these organizations to be successful. They identified eight cultural values that led to successful management practices, which they called excellent values.
The characteristics of the excellent organization suggested by Peters and Waterman are:

- **Bias for action:** Managers are expected to make decisions even if all the facts are not available.
- **Stay close to the customer:** Customers should be highly valued.
- **Encourage autonomy and entrepreneurship:** The organization is broken into small, more manageable parts and these are encouraged to be independent, creative and risk- taking.
- **Encourage productivity through people:** People are the organization's most important asset and the organization must let them flourish.
- **Hands-on management:** Managers stay in touch with business activities by wandering around the organization and not managing from behind closed doors
- **Stick to the knitting:** These organizations are reluctant to engage in business activities outside of the organization's core expertise – i.e. what it is good at.
- **Simple form, lean staff:** Few administrative and hierarchical layers, and small corporate staff.
- **Simultaneously loosely and tightly organised:** Tightly organised in that all organizational members understand and believe in the organization's values. At the same time, loosely organised in that the organization has fewer administrative overheads, fewer staff members and fewer rules and procedures.

In summary, the organizational culture perspective argued that successful management resulted from the development of key cultural values rather than any innovations in structure and systems.

How to Select a Management Theory?
Each management theory provides valuable insight into managerial requirements. There is no single model or theory that will work for every organization. Many modern organizations apply a combination of theories to realize management success. This has led to the creation of newer organizational models with less structured hierarchies.

Effective management is the backbone of any business. It is important to consider several factors when deciding which theories are most ideal for a small business. Often, small businesses are less rigidly hierarchical and must operate with minimal staff. It is important to select management theories and practices that are sustainable, especially if business resources are limited.

2.2. The contributions of management within a modern business organization

What is the role of management?
Management is the process of guiding the development, maintenance, and allocation of resources to attain organizational goals. Managers are the people in the organization responsible for developing and carrying out this management process. The four primary functions of managers are planning, organizing, leading, and controlling. By using the four functions, managers work to increase the efficiency and effectiveness of their employees, processes, projects, and organizations as a whole.

Management is dynamic by nature and evolves to meet needs and constraints in the organization's internal and external environments. In a global marketplace where the rate of change is rapidly increasing, flexibility and adaptability are crucial to the managerial process.

From this perspective, the managerial process can be described as (1) anticipating potential problems or opportunities and designing plans to deal with them, (2) coordinating and allocating the resources needed to implement plans, (3) guiding personnel through the implementation process, and (4) reviewing results and making any necessary changes. This last stage provides information to be used in ongoing planning efforts, and thus the cycle starts over again. The four functions are highly interdependent, with managers often performing more than one of them at a time and each of them many times over the course of a normal workday.
Good management consists of these four activities: planning, organizing, leading, and controlling, which results in:

Planning Set objectives and state mission Examine alternatives Determine needed resources Create strategies to reach objectives	Leading Lead and motivate employees to accomplish organizational goals Communicate with employees Resolve conflicts Manage change
Organizing Design jobs and specify tasks Create organizational structure Staff positions Coordinate work activities Set policies and procedures Allocate resources	Controlling Measure performance Compare performance to standards Take necessary action to improve performance

Good implementation of these four activities leads to organizational efficiency and effectiveness and achievement of organizational mission and objectives

Importance of Management in a Modern Business Organization

The concept and practices of management are assuming immense significance in the present day environment. It is being understood by different senses. Some people consider it as the art and science of getting things done through and with people. Some others consider as the process of achievement of the objectives. Some define it as the optimum utilization of the resources for the purpose of achieving the organizational objectives.

Modern management defined

Management can be defined as a way of achieving goals that add the most value1. It's about being sufficiently organized to identify the right goals and the best means for achieving them.

Importance of management

Management is an indispensable element for the establishment proper functioning and success of all the organization behavior social, political, religious, charitable or business units. If effectively and efficiently organizes and utilizes the human and non-human resources and directs them towards the accomplishment of organizational goals.

The importance of management is as follows.

1. The accomplishment of organizational goals

Management achieves the organizational goals by properly planning organization. The success of any business organization depends on the extent of its effective and efficient attainment of the predetermined object or goals by properly utilizing its human and physical resources and facility, and by copying well with its environment element, such as consumers, suppliers, competitors, etc.

2. To run large-scale industry smoothly

It is the time of production. production enjoys some certain advantages overproduction but simultaneously faces some difficulties also. The main difficulty faced by the enterprise having production is to the activities and to manage the distribution of goods and services. Business administration and management the enterprise in overcoming these problems with the help of business administration and management. The business enterprise can carry out the production easily and can manage the proper distribution of goods and services.

3. Proper running of the business

Management successfully leads and motivates the workers to perform their duties and responsibilities.

4. Designing of good organizational structure

People in an enterprise must be properly well constituted purposeful groups in order to create co-operation and co-ordination in their thinking and activities only then they will be able to contribute effectively and efficiently towards the achievement of group goals and ultimately the business subjective. For establishing proper control positions and also clear relationships between and amongst The management designs the required structure and fills the created positions with right persons.

5. Creation of proper organization climate

The good working climate is a must for people to perform their task and responsibilities enthusiastically and economically. Managers create proper organizational climate by establishing effective reward system.

6. Creating and maintaining co-coordinating

If people in the organization perform their linkages with one another. Such scattered activities and efforts shall result in all futile exercises. Productivity will be hampered results shall be dismal and disappointing and objectives shall remain unattained. Hence proper integration of physical resources and people is a must for successful business. Management acts as the force that integrates ideas and physics resources into creating and maintain among human and material resources towards the achievement of organizational objectives.
The importance of management has increased tremendously in recent years due to increase in the size and complexity of organizations, turbulent environment and growing responsibilities of business.

The role of the manager in a Modern Business Organization

The modern manager needs to get work done through engaged, self-managing knowledge workers, who are a far cry from the “hired hands” of the industrial age. The role of today’s manager can be illustrated by four analogies. Today’s managers need to behave something like:

- investors
- customers
- sports coaches
- partners

Analogies are approximations; otherwise they would be identical to their comparison objects and not analogies at all. Thus, managers share some attributes with investors, customers, sports coaches and partners without being identical to any of them.

Managers as investors
Managers allocate resources to obtain the best return, like investors. Their effectiveness is based on how well they use their resources. But managers differ from investors in two respects. First, knowledge workers want a say in what work they do, so any allocation needs to be negotiated, not decided unilaterally, as an investor would do with his or her money. Second, managers actively develop people, so they are not as arms-length from the people they manage as are investors.

Managers as customers
As employees become more engaged their status changes, from simply being hired hands to being more like self-employed business people supplying services to internal customers. In this relationship, employees can be more proactive and able to identify the needs of managers. Indeed, astute employees might see needs that managers overlook.
This interaction involves two-way communication and negotiation, not one-way, top-down directing. Also, enterprising employees might devise new services to "sell" to their managers as a way of advancing their careers (building their business). For example, whenever employees contribute ideas for process improvements to their bosses, they can be framed, condescendingly, as suggestion-box material or, more appropriately, as attempts by employees to sell their services to management. Employees who suggest a better way of managing some part of the business and offer to do it themselves can, in steps, transform their roles into something new. By thinking of themselves as operators of a business, and serving their bosses as customers, employees become more empowered to manage their own careers. When high-demand knowledge workers are in short supply, they have more power than their customer (the boss). Such employees can easily move to new customers and, being knowledgeable, they might offer more advice to their boss (customer) rather than the other way around. So much for the belief that power resides only at the top and all direction flows top-down.

Managers as sports coaches
Professional golfers have coaches and managers. The latter help them with their business matters, sponsorships and travel arrangements. However, this manager cannot fire the golfer; it is the other way around. A sports manager is a facilitator, coordinator and advisor, with no power to direct or control the golfer. Modern business managers are moving in this direction, although they will always be able to fire the employees they manage. Still, when managing rare, expensive talent, they cannot fire them without carefully weighing the consequences. In any case, modern managers do more coaching and less directing, so they need to behave more like coaches than industrial-age managers.

Managers as partners
As the power of knowledge workers grows, they become more like partners than "hired hands." Toyota and other smart companies forge partnerships with external suppliers. Employees are, similarly, internal suppliers and partners. Still, suppliers and employees can be fired, unlike real partners, who must agree on an appropriate severance.

The challenges involved in effective business management
1. Lack of skills
Lack of skills is challenge facing organizations. It becomes harder and harder to find talented and experienced people. That is because other organizations take prior precautions to retain the skilled employees by applying motivation and empowerment theories to secure their loyalty and job satisfaction. According to Thurow (1998), an academic economist, competitive advantage springs primarily from the knowledge and skills of the workforce (Cole, 2004).

2. Market changes

Coping with continuous rapid changes in marketplace and the need to find new ways in anticipating changes are as challenging as they ever were. For example, current global financial crisis is considered a significant change which requires innovative enlightened management skills to adapt it. Reshaping the organizational structures, strategic merging with other organizations, searching for new markets and reducing overhead costs are some of the initial solutions which can be implemented to cope with such change.

3. Power-added manager: new concept arises

Rowley (2003) introduced a new concept of power-added manager to meet the challenges of the new millennium. Power-added managers are considered the strategic leaders of an organization who formulate and drive through visions which are innovative and creative. They need exceptional competence and experience in relation to both knowledge and people to face different contexts, cultures and communities. Knowledge management, social acumen and global orientation are the three areas of competence which characterise the power-added managers. They make effective use of technology and social networks to elicit the necessary knowledge for creativity and innovation. Such managers are the strategic leaders for the organization who are really mature to meet the challenges of the 21st century (Rowley, 2003).

Furthermore, Kanter (1989) identified that the leaders' ability to develop a combination of the right people in the right place with the right skills was crucial; developing partnerships and alliances with others and developing new streams of ideas and services within the organization are probably now the greatest requirements for organizational success (Hackett, Spurgeon, 1998).

Motivation: The way forward

Since it is a big challenge to retain the highly skilled employees especially in view of the strong competition from other organizations, then attractive motivation measures should be implemented to adapt the changes in culture. Managers should have better understanding of what motivates the employees. Rewards, recognition and incentive programmes can positively affect performance and interest with the organization (Milne, 2007). Leaders should play an active role in motivating the employees to share their knowledge and ideas within the organization.

4. Empowerment: The road to success

Nowadays, Empowerment is another key to keep the organizational successful. Making decisions becomes more complex than before, that is why asking the employees to share the decision is a vital and a strategic tool to secure the most appropriate decision to be made. Researchers have concluded that employee's participation in decisions has at least a moderately positive affect on job satisfaction and productivity (Nykodym, 1994).

5. HR departments: Call for a new role

Recruiting the right people for the right jobs and training them to improve performance is another challenge for HR departments in light of the lack of skills and the market huge demand. HR departments play now more significant roles than before, however, they need to develop new roles and agenda to deliver organizational excellence such as creating partnering with senior managers and becoming agents of continuous transformation and shaping a culture to improve the organization capacity for change (Aghazadeh, 1999).

Here are 5 common challenges for managers and supervisors

1. Communicate.

Managers frequently are not aware of the quality of their communication or, as the above example illustrates, how their communication or interpersonal style are perceived by their employees.

2. Resolve conflict.
Many managers ignore problems and do not directly address conflicts with their employees or work team.
Whether these are performance problems, conflicts among team members, issues of trust or personality clashes, managers are challenged to confront and address problems head-on and as they emerge, diffuse employees' feelings and emotions about the problem, listen to both parties' needs and desires, derive win-win solutions that lead to more productive and positive work relations, and prevent conflict in the future by nurturing positive coworker relationships and recognizing potential for conflict or problems early.

3. Manage performance.
Managers must balance meeting goals, managing workloads and motivating employees. These issues, coupled with the fact that many managers are ill-equipped to provide regular and constructive feedback and may not understand the importance of documenting performance, can make managing performance challenging.

4. Handle protected employees.
Most managers are not well-versed in administering laws that protect certain groups of employees, but unknowingly find themselves managing an employee who requires an accommodation, leave of absence or falls into a protected group.

2.4. Functions of Management

PLANNING
In Chapter 1, the four basic functions of management process were identified as planning, organising, leading and controlling. It could be argued that planning is the most important of these functions as everything else flows from it. Planning takes place in all organizations either formally or informally. It is important that organizations know where their future lies and that they have planned for it. Planning is future oriented and involves selecting from a number of possible courses of actions. The rapid rate of change that faces all firms makes planning more difficult but also more important.

Definitions
A **plan** is a statement of action to be undertaken by the organization aimed at helping achieve its objectives.
Planning is defined as "The establishment of objectives, and the formulation, evaluation and selection of policies, strategies, tactics and action required to achieve them" (Foulks & Lynch, 1999).

Planning and control are closely linked, as a plan is effectively a road map that tells everyone in the organization where they are going and control ensures that they get there.

1. LEVELS OF PLANNING
In general, there are three levels of planning within organizations as shown in Figure 3.1.

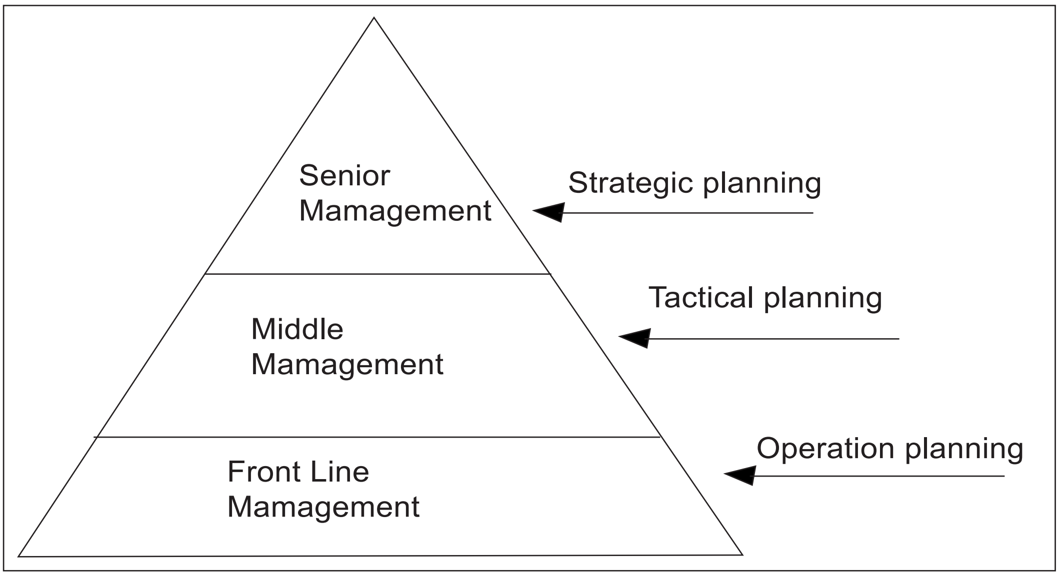


Figure 3.1: Levels of Planning

Strategic Planning
Strategic planning is concerned with determining the major goals and mission of an organization and crafting a strategy to achieve them. Strategic planning is normally carried out at the senior management level. A strategic plan is a long-term plan that will stretch from three to five years.

All other planning in an organization is derived from the strategic plans.

Tactical Planning
Tactical planning takes place at the middle management level and is concerned with the various component parts of the organization. A tactical plan is normally a medium term plan covering a period of up to 1 year. Tactical plans will be focused on achieving the overall objectives of the organization.

Operational Planning
Operational planning is concerned with the short-term, day-to-day functions of the organization. It is concerned with achieving the operational targets set out in the tactical plans. Operational planning is normally undertaken by front line managers and supervisors within the different functions of the business including sales, production, human resources and finance.

HIERARCHY OF PLANNING
Organizations typically use a wide variety of plans to assist in their planning process. Weihrich and Koontz (1993) state that there are eight different types of plans, which form a hierarchy as shown in Figure 7.2.

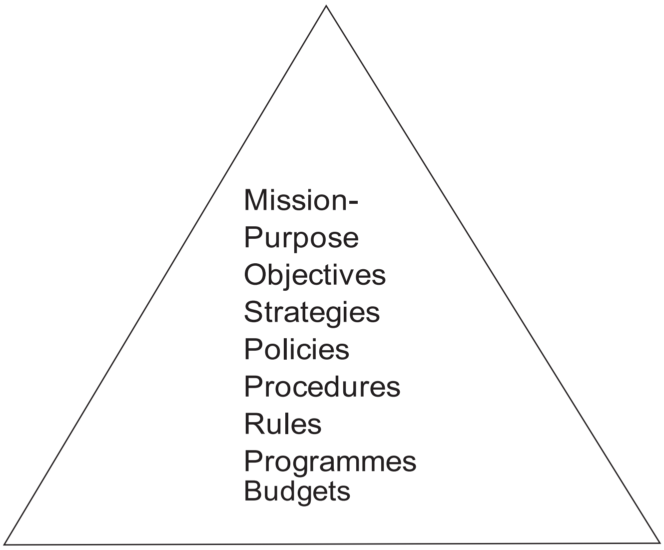


Figure 3.2 Hierarchy of Planning

Mission or Purpose

The mission or purpose is set out in a mission statement that is used to communicate the strategic vision through the organization. A mission statement will set out how to make the firm distinctive in the eyes of its employees, customers and suppliers. A mission statement will generally include a description of the company's basic product or service and its target market.

Goals and Objectives

Organizational goals set out the long-term targets that have to be achieved if the hopes in the mission statement are to be attained. Objectives set out in the medium-term outline how these goals are to be achieved. Sample goals and objectives might include:

- **Goal:** To become Africa's number one low cost airline with five years.
- **Objectives:** To become market leader on Kenyan and Ugandan routes within two years, to increase market share on Kenyan to Ugandan routes by 10% per year, to open 6 new routes per year and to increase seat occupancy by 3% per year.

It is possible for objectives/goals to be in direct conflict with each other. For example, the organization might have set a goal to reduce costs and at the same time improve product/service quality. The basic conflict in this example is that improving product or service quality can lead to increased costs and reducing costs can have a negative effect on quality. The organization in this example must strike a balance between the two or drop one.

Strategies

The fundamental plans that an organization devises in order to achieve its goals and objectives are called strategies. Strategies are the set of activities identified to achieve goals and objectives. Strategies should take account of the company's strengths and weaknesses and the opportunities and threats that exist in the external market.

A company's strategy represents the management's answer to such issues as whether to concentrate on a single business or build a diversified group of businesses, whether to cater for a broad range of customers or concentrate on a niche market, whether to develop a narrow or broad product line and whether to pursue competitive advantage through low cost or product superiority.

Policies

Policies provide a framework to assist managers in their decision-making. Policies tend to limit an area within which a decision can be made and ensure that the decision will be consistent with and contribute to the overall organizational objectives.

Policies can be in two forms, namely express or implied. An express policy is a written or verbal statement, which guides managers in their decision-making. For example personnel may state an organization is an equal opportunities employer. An implied policy is inferred from looking at the organization's behaviour and actions. Sometimes an organization's expressed and implied policies may conflict or contradict each other, with the organization pursuing an expressed policy openly yet privately applying an implied policy.

Procedures

Procedures are used to standardise activities ensuring consistency. They provide a framework to assist management in decision-making. Procedures are set out for the different functions. For example there might be purchasing procedures, hiring procedures, procedures to handle bad debts, customer complaints procedures etc.

Procedures exist at all levels in the organization but tend to proliferate at lower levels often as a means of control. Weihrich and Koontz (1993) argue that one of the reasons for the widespread use of procedures at lower levels is that routine jobs can often be completed more efficiently when management details the best way to carry them out.

Well-established procedures are commonly termed 'standard operating procedures'. These are procedures that the organization uses in a routine manner.

Rules

Rules are statements that either prohibit or prescribe certain actions by clearly specifying what employees can and cannot do. Examples of rules would include "No Smoking", "Safety helmets must be worn on the building site" and "No cheques accepted without cheque card".

Unlike procedures rules allow no discretion in their application.

Programmes

Programmes provide a link between strategy and execution. Programmes are a method by which middle management can translate organizational strategy into activities to meet its goals and objectives. For example an IT manager may develop a computer replacement program to reduce maintenance costs of obsolete equipment. The introduction of a program within an organization may lead to the development of a number of supporting programmes.

Budgets

A budget is a numerical expression of a plan, which deals with future allocation and utilisation of resources over a given period of time. Budgets are normally expressed in financial terms, person hours, productivity or any other measurable unit.

Budgeting is an important planning tool in many businesses. Financial budgets are developed in conjunction with a programme and they set out the financial resources available to achieve the programme's objectives.

A budget also serves as an important control mechanism. One of the advantages of a budget is that it forces people to plan in a precise way.

THE PROCESS OF PLANNING

To gain an understanding of the planning process we will look at one type of planning (Strategic planning) and describe the steps involved. Strategic planning involves the following stages:

- Developing a mission statement
- Setting objectives
- Analysing the company's internal and external environment
- Developing plans
- Implementation of plans
- Evaluating performance

Developing a Mission Statement

This stage involves an analysis of the organization's current position and an investigation of the external environment, in order to establish where the company is and where it is headed. It also involves identifying gaps in human (skills) and materials resources that need to be filled. The purpose is to provide a long-term direction on what the company is trying to become.

Setting Objectives

This stage involves translating the strategic vision or mission into specific performance targets to be achieved. Objectives should be **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime-bound (S.M.A.R.T)

Analyse the Company's Internal and External Environment

Before preparing a strategy, an organization needs to carry out an analysis of both its internal and external environment. The business environment is made up of a number of different layers as shown in Figure 3.1. These layers include the macro-environment and the industry or sector in which it operates.

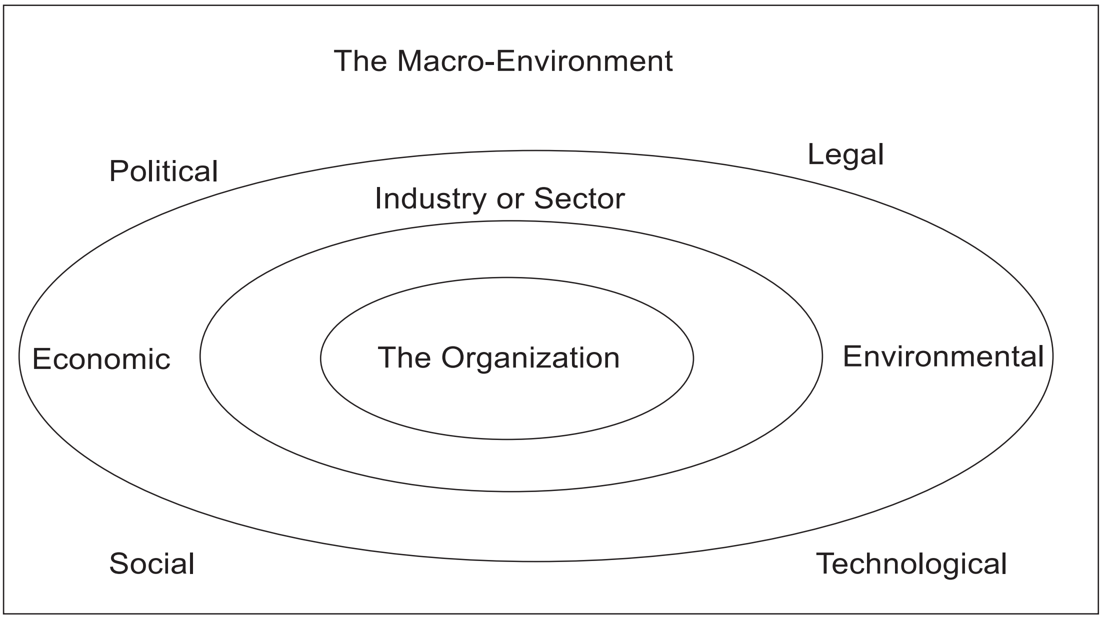


Figure 3.1: The Business Environment (Adapted from Johnson and Scholes, 2008).

Macro-Environment

The Macro-Environment: This "general" layer consists of broad environmental factors that impact almost all organizations. It is important to build up an understanding of how changes in the macro-environment are likely to impact on individual organizations. While the firm may have little control over these factors it must be in a position to deal with these effects whether they represent a threat or an opportunity for the firm. The PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental and legal environments might impact on organizations.

PESTEL ANALYSIS (Refer to study unit 1)

- **Political Factors:** On an international level, the political environment influences business through policies in relation to international trade and deregulation.
- **Economic Factors:** The economic environment affects the purchasing power of a given market and therefore will affect the level of demand for a firm's products and services.
- **Societal Factors:** Organizations will need to establish what the current and emerging trends are in fashion and lifestyle, what demographic changes are occurring and what the likely impact on the firm's markets is.
- **Technological Factors:** Organizations need to determine which emerging technological trends are likely to affect the industry in which they are operating.
- **Environmental Factors:** Organizations need to be aware of their environmental responsibilities.
- **Legal Factors**: There is a wide range of laws that can impact an organization.

Industry or Sector:

This is the next layer within the broad general environment. The industry or sector is a group of organizations producing the same products or services. The **five forces framework** can be useful in understanding how the competitive dynamics within and around an industry are changing.

Porter's Five Forces Framework

Porter identified five competitive forces that can be used to analyse the intensity of competition within an industry, and the attractiveness and profitability of an industry. By understanding these forces management can develop effective strategies.

Porter's framework states that competition in an industry is a composite of five competitive forces (see Figure 3.3):

- The threat of new entrants
- The bargaining power of supplier
- The bargaining power of buyers
- The threat of substitute products
- The intensity of rivalry

Each of these forces is now discussed in detail.

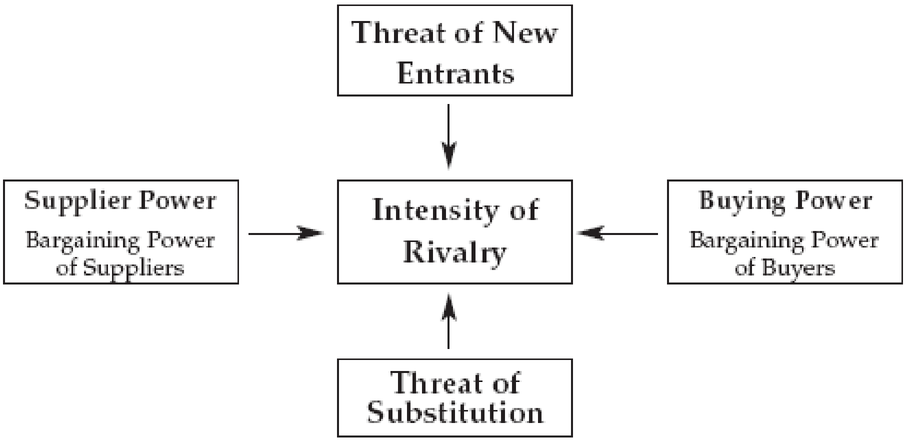


Figure 3.3: Porter's Five Forces

THREAT OF NEW ENTRANTS

The threat of new entrants will depend on the extent to which there are barriers to entry. Barriers to entry are factors that need to be overcome by new entrants if they are to compete successfully. Typical barriers include; capital cost of building and equipment, economies of scale, access to supply or distribution channels, customer loyalty, experience, government regulations and differentiation.

BARGAINING POWER OF SUPPLIERS

Whether the suppliers to an industry are a weak or strong competitive force depends on market conditions in the supplier industry and the importance of the item they supply. Supplier-related competitive pressures tend to be minimal whenever the item supplied is a standard commodity available on the open market from a large number of suppliers with ample capacity. Suppliers also tend to have less leverage to bargain over price and other terms of sale when the firm they are supplying is a major customer. Supplier's power is likely to be high when there are only a few main suppliers of the product or service, or when the costs of switching from one supplier to another are high. Supplier power is also strong if there is the possibility of the supplier competing directly with their buyers (forward integration).

BARGAINING POWER OF BUYERS

The bargaining power of the buyer is strong when some of the following conditions exist:

- Where there are a few dominant buyers and a large number of small suppliers
- Where the number of buyers is small
- If the costs of switching to a competing product or substitute are relatively low
- If the buyer poses a credible threat of backward integration into the business of the supplier

THREAT OF SUBSTITUTES

Firms in one industry are quiet often in close competition with firms in another industry because their products are good substitutes. Substitution reduces demand for a particular class of products as customers switch to the alternatives.

INTENSITY OF RIVALRY
This is normally the strongest of the five competitive forces. In some industries rivalry is centred around price competition, which sometimes results in lowered prices. In other industries rivalry is focused on factors such as performance features, new product innovation, quality, warranties, after-sale service and brand image.

Rivalry intensifies as the number of competitors increase and as competitors become more equal in size. Also rivalry is usually stronger when demand for a product is growing slowly or shrinking.

EVALUATING ALTERNATIVE STRATEGIES
The organization will develop a list of strategic options that will help it achieve its strategic objectives. Options could include expanding into new markets with existing products or launching new products on the existing market of even acquiring a competitor. The company will need to evaluate each of the alternatives and choose the most viable one(s).

Implementation of Plans
This stage involves implementing the strategic plan. The task on management includes such actions as assessing what needs to be done to put the strategy in place, executing it proficiently and achieving good results. Implementing strategy involves developing the capabilities of the organization, creating a suitable culture and motivating the people to pursue the target objectives. It also involves developing and controlling a budget towards the resources critical to the strategic plan.

Evaluating Performance
This stage involves evaluating performance and initiating corrective adjustments in the direction, objectives, or implementation in light of changing conditions or new opportunities that may arise.

MANAGEMENT BY OBJECTIVES
Management by Objectives (MBO) is an approach which encourages managers and employees to set their own goals within a framework set out by senior management. It is based on the idea that when employees are set specific and challenging goals, accompanied by feedback, they are more likely to be motivated to give their best.

The specific stages of the MBO process are:

- Senior management set long-term goals for the organization
- Each department within the organization is assigned specific targets.
- Lower level manager's objectives and targets are set and agreed with the managers and employees involved.
- Progress towards achieving objectives is constantly monitored and corrective action is taken where necessary.

The management writer Peter Drucker argued in his book "The Process of Management" that MBO was the ideal way of delegating authority in a large organization.

Benefits of MBO

- It encourages managers to employ a result focus to their planning.
- It can help identify deficiencies in the organizational structure as MBO forces managers to clarify organizational roles and structure.
- Can lead to improved moral and motivation among the managers and employees involved as they have input into the goals that are set.
- Can increase employee commitment to achieving the goals set for them.
- Supports the development of management control and performance measurement.

Weaknesses of MBO

- MBO relies on commitment of all management to succeed and it will fail without top management commitment.
- It can be difficult to set goals for all managers in all circumstances
- Management can become disillusioned if unrealistic and unachievable targets are set for them.
- It can encourage individual achievement at the expense of a team focus.

MANAGEMENT DECISION MAKING

Decision-making is defined as choosing one alternative from several. This definition could be extended to include an identification phase, where problems and opportunities are identified that require decisions to be made. Decision-making is a key task of management, in particular in the context of planning.

Types of Decisions

There are basically two types of decisions:

- **Programmed Decision**: This is a decision or problem that recurs regularly enough for a decision rule to be developed. The decision rule tells the manager which alternative to select.
- **Non-programmed Decision**: This is a decision or problem not encountered before where the decision maker cannot rely on previously defined decision rules.

The Decision Making Process

Despite the fact that decisions will be made in different organizational contexts, it is possible to create a model that can be applied to most situations. A six-step model called the Rational Model (Moorhead and Griffin, 1995) is one that can be applied to a variety of decision- making situations. The six steps are as follows:

- **Stating the goal**: The first step is to establish the goal or desired end state against which solution will be measured.
- **Identifying the problem**: The problem is in effect the difference between the current and the desired or goal state.
- **Determining the decision type**: The type of decision must be determined. If the decision is a programmed decision, then there should already be policies or rules that can be used. If a non-programmed decision is involved, the decision makers will have to generate solutions as well as evaluate them.
- **Choosing an alternative**: The alternative chosen will be the one with the highest possible benefits while taking into account the risks involved.
- **Implementation**: In this phase the chosen alternative will be implemented. The implementation phase will involve planning and communication to ensure that all those affected are aware of the decision and what is required of them.

- **Measurement and control**: Measurements should be taken to establish the success or otherwise of the implementation. Corrective action should be taken where required.

The Administrative Model of Decision Making
The administrative model describes how decisions are made in difficult situations of uncertainty and ambiguity.

Three important aspects of this model are:

- **Bounded rationality** – means people have limits or bounds on how rational they can be.
- Organizations are very complex and have time only to process limited amounts of information to make decisions. Therefore, they choose the first solution that satisfies the minimal decision criteria.
- **Intuition** – entails a quick apprehension of a decision situation based on past experience but without conscious thought. Intuitive decision making is not arbitrary or irrational because it is based on past experience.
- **Coalition building** - entails forming an informal alliance among managers who support a specific goal. Managers gain support through discussion, negotiation and bargaining.

The administrative model is more realistic than the rational model as it focuses on organizational factors that influence individual decisions.

Group Decision Making
Group decision-making can be a very powerful tool if utilised successfully as it can bring a wide range of knowledge, skills and experiences to a particular problem or situation. However, the disadvantage is that too many strongly held viewpoints can make it difficult to reach consensus. A number of different formats/techniques have been developed to facilitate group-decision making.

- **Interactive Groups**: A group is brought together face to face with a specific agenda. The discussion group will generate ideas and all ideas will be discussed. A vote is taken to reach consensus on a chosen solution.
- **Brainstorming**: This is a creative process used to generate ideas involving a group of people who are encouraged to contribute ideas. All ideas are written down without evaluation and are examined in more detail once the brainstorming process is completed.
- **Nominal Groups**: Group members assess the problem and ideas are generated by the individuals. These ideas are then presented and discussed as a group. Group members then rate ideas individually and the idea with the highest score is chosen.
- **Delphi technique**: This is a decision making process that was designed to avoid conflict between participants and to prevent any one participant having undue influence on the decision making. A chairman or facilitator asks each participant to fill in a questionnaire. The chairman summarises the replies and sends the summary to each participant for their opinion. The process continues until consensus is reached. The main disadvantage of this technique is its slowness.

Individual versus Group Decision Making
Benefits of Individual Decision Making

The benefits associated with individual decision-making are:

- Speed
- Clear Accountability
- Consistency

Benefits of Group Decision Making
The benefits associated with group decision-making are:

- Wider range of skills and experience used in the decision making process
- Higher quality decisions
- Greater acceptance of the decision mad

ORGANISING
The organization of a firm is closely linked to the planning process; it creates the structure in which the firm fits its strategy. The organizational structure is one of the tools that management uses to get work done.

1. CORE FEATURES OF ORGANIZING
Organizational Structure
Organizational structure refers to the framework in which the organization sets out how tasks are divided, resources are deployed and departments are coordinated. The main features of organizational structure are:

- The set of tasks assigned to individuals and departments.
- The formal reporting relationship, including lines of authority, decision responsibility, number of levels and the span of a manager control.
- The systems that ensure effective coordination across departments.

The characteristics of the vertical structure of an organization are represented in the organizational chart.

Work specialization
Work specialisation, which is also called division of labour, is the degree to which organizational tasks are subdivided into separate jobs. This is done because in many work situations it is more efficient if employees are allowed to specialise on a particular task.
Chain of Command

The chain of command is the unbroken line of authority that links all persons in an organization - it effectively shows who reports to whom. A closely linked principal is called **Unity of Command**, which means that each employee is held accountable to only one supervisor.

Authority, Responsibility, Accountability and Delegation Authority is defined as the right to make decisions and take action. **Responsibility** is the obligation of a person to complete a given task.
Accountability is the requirement that managers and workers accept the consequences of their actions and report those actions to their immediate supervisor.
Delegation is the process that merges authority, responsibility and accountability. Senior management may delegate authority and responsibility to lower level management but they are still accountable for the outcome.

Span of Control
Span of control defines the number of subordinates a manager supervises. Wider spans of control give employees greater freedom while a narrow span of control involves close supervision of subordinates. The breath of the span of control is a function of the complexity of

the organizational structure and task complexity coupled with the amount of time required. The exact number will depend on a variety of factors such as:

- **The geographic proximity of the personnel**: The more concentrated the work area is the greater span of control that is possible.
- **The functional similarity of operations**: A manager can exercise a broad span of control if the majority of staff performs similar tasks.
- **Functional complexity of the organization**: Organizations with complex functions require narrow spans of control.
- **The need of the employees for supervision**: The greater the need for supervision the narrower the span of control.
- **The clarity and complexity of plans**: Well defined and straight forward plans support a broad span of control.
- **The level of managerial support available**: The span of control can be extended if there is support from higher-level managers.
- **The need for coordination within functions**: A narrow span of control will be necessary in organizations where there is a need to coordinate between functions.

2. CENTRALISATION VERSUS DECENTRALISATION

The extent to which authority is delegated depends on the extent of centralisation or decentralisation. A decentralised organization is one in which the authority to make decisions and to commit money and materials is widely delegated throughout every level of the organization. A centralised organization is one where little authority is exercised outside the key group of senior managers.

ADVANTAGES OF DECENTRALISATION

The advantages of decentralisation are as follows:

- Top management are free to concentrate on their strategic responsibilities.
- It speeds up operational decisions as they can be made nearer to where they apply.
- It allows local management to be flexible.
- It can contribute to staff motivation.
- It encourages responsibility among junior managers.

DISADVANTAGES OF DECENTRALISATION

The main disadvantages of decentralisation are,

- Control and co-ordination by management (top management in particular) is more difficult to accomplish.
- Communication is more difficult but also more important.
- It can encourage people to focus on their own individual goals rather than the organization's goals.
- It requires well-trained, capable and motivated managers.

Overall, the advantages of decentralisation outweigh the disadvantages because of the pressure on modern organizations to be flexible and respond quickly to the business environment.

Tall versus Flat Organizational Structures

Flat organizations	Tall organizations
Decentralised authority	Centralised authority
Few levels of management	Many levels of management
Wide span of control	Narrow spans of control

Table 4.1: Tall versus Flat Organizational Structures

A flat structure would generally apply to smaller organizations of 500 employees or less; however control can become unmanageable for some managers and supervisors. In flat organizations managers are more likely to delegate responsibilities.

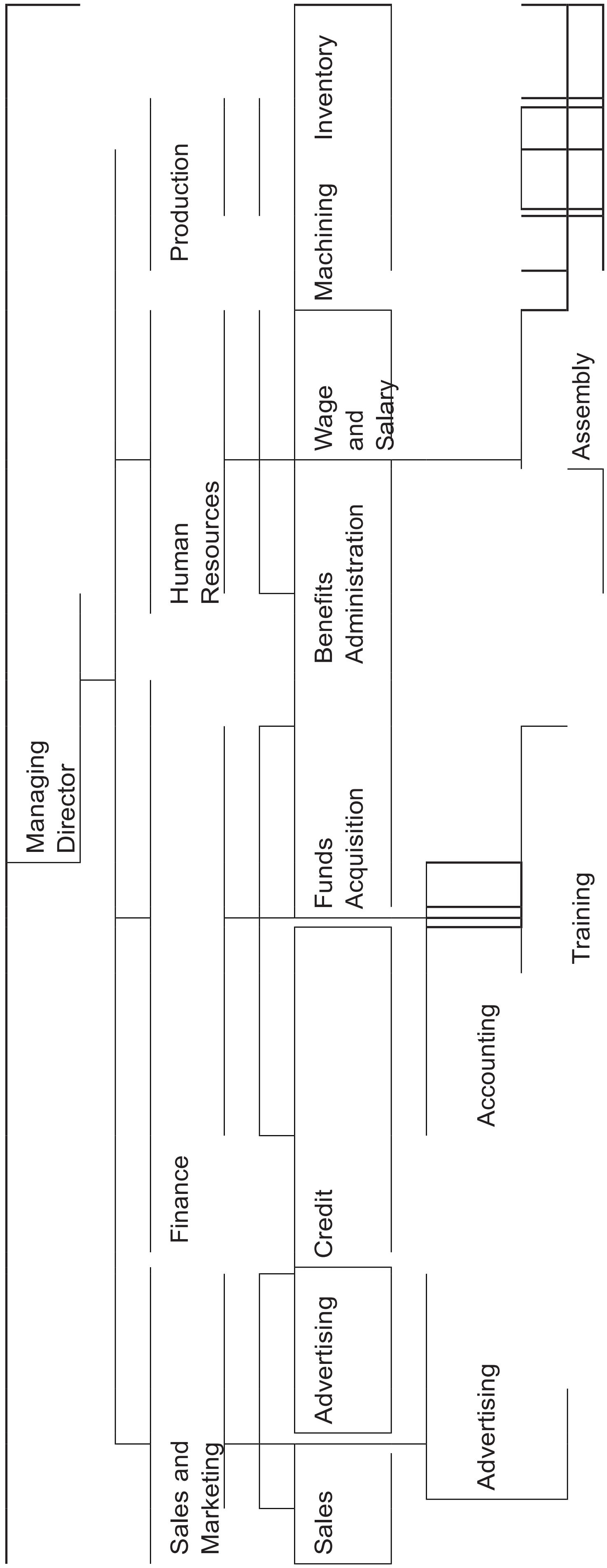
The advantage of tall organizations is they can maintain a very high degree of specialisation of functions and roles. However, tall organizations tend to be very formalised with standardisation of procedures that usually discourages initiative and risk taking.

3. APPROACHES TO STRUCTURING ORGANIZATIONS

Functional Approach

In this type of organizational structure tasks are linked based on common function (Figure 4.1). For example, all tasks associated with production are grouped in a single function and all sales activities are grouped together. Figure 4.1 is an organizational chart of a functional organization.

Figure 4.1: A functional organizational structure (Plunkett, W. 2007)


Managing Director
Sales and Marketing
Finance
Human Resources
Production
Sales
Advertising
Credit
Funds Acquisition
Benefits Administration
Wage and Salary
Machining
Inventory
Advertising
Accounting
Training
Assembly

There is a high degree of division of labour and specialisation in this approach, which can yield economies of scale. However the high degree of coordination required between departments may result in delays in adapting to changes in the external environment.

Divisional Approach

In this approach, departments are grouped together into separate self-contained divisions based on a common product or a geographical region (Figure 4.2). The divisional approach has the advantage that reporting lines and chain of command are in line with the main activities of the organization. This provides a clear framework for channelling strategic efforts to achieve the strategic aims of the organization.

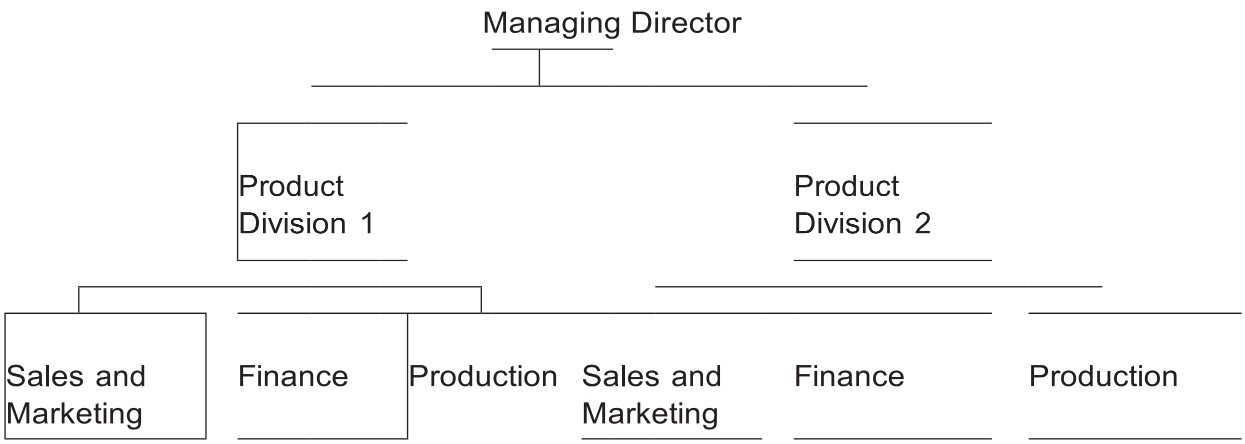


Figure 4.2: A Divisional Organizational Structure

The main disadvantage of this type of organization is that divisions can become compartmentalised and focused on divisional interest to the detriment of the overall organization. Divisions may also become isolated and unaware of what the other sections of the business are doing.

Matrix Approach

In the matrix approach, both functional and divisional chains of command are implemented simultaneously and overlap with one another in the same departments. Two chains of command exist and employees report to two bosses.

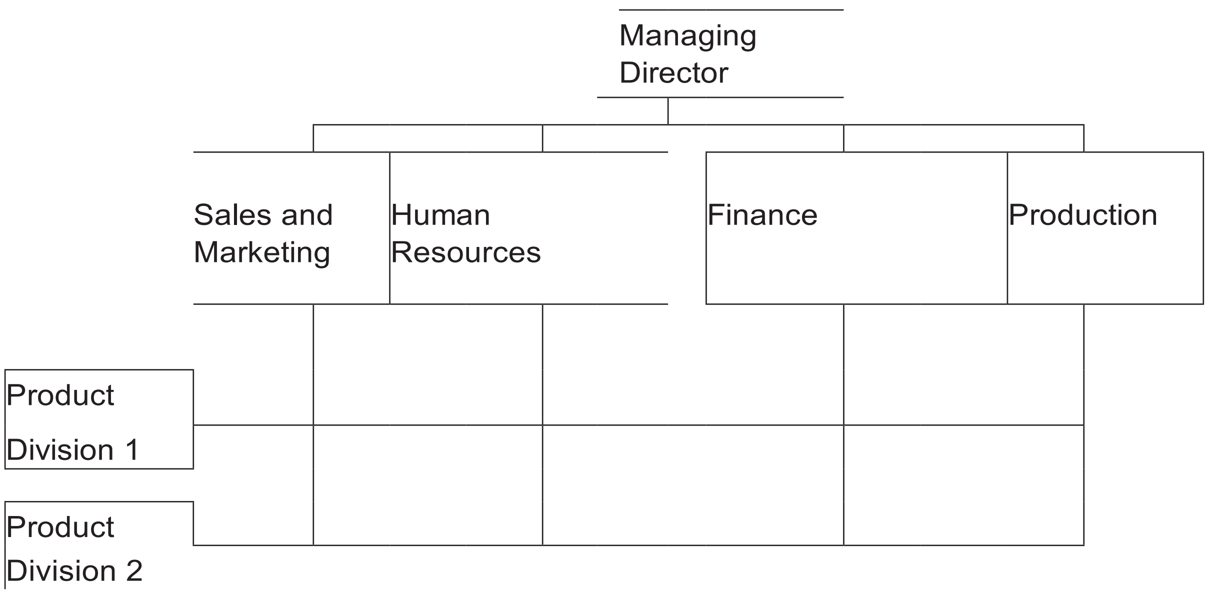


Figure 4.3: A Matrix Organizational Structure

This approach tries to bring the best of both worlds - functional specialisation and expertise with a product focus. The main disadvantage is that individuals may experience divided loyalties between individual bosses.

4. FACTORS AFFECTING ORGANIZATION STRUCTURE (LYNCH AND ROCHE, 1999)

In general, the structure of an organization depends on a variety of contingency factors. Different organizations require different types of structure. The factors involved in the choice of structure include:

- Strategy
- The Business Environment
- Size and Life Cycle
- Manufacturing and Service Technologies
- Department Interdependences

Strategy

In general, an organization's structure follows the strategy being pursued. For example, a start-up company operating in a domestic market may be able to centralise decision making to a greater extent than an export led company. A company pursuing a differentiation strategy might require a more flexible structure than a company pursuing a low cost strategy.

The Business Environment

Firms operating in a dynamic environment need a more flexible structure. Firms operating in a stable environment need a rigid structure, whereas firms operating in an intermediate environment need a hybrid structure.

Size and Life Cycle

One of the major determinants of organizational structure is the size of the organization. Larger firms that have greater access to capital can attract better management, greater market share and superior market information than smaller firms. As an organization grows in size, so too must its structure, as more levels or layers of management are needed to co-ordinate operations. The problems for large firms are how to manage layers of managers, how to delegate to all their employees, and how to obtain commitment and employee satisfaction, while at the same time achieving the organization's objectives.

Manufacturing and Service Technologies

There is a direct relationship between the level of technology involved and the required structure of the organization. In general the use of IT within organizations is reducing management layers and increasing spans of control. Also, very high levels of customer service requirements suggest the need for locally responsive decentralised types of structure. Furthermore, a company utilising high levels of mass production to produce standard products might employ a formal structure as workers are required to carry out repetitive tasks.

Department Interdependences

This refers to the level of dependence between departments' vis-à-vis resources and supplies in accomplishing tasks and has an influence on the required organizational structure. Where interdependence is low, there is little need for a structure, which facilitates interaction, information sharing and coordination.

5. RECENT DEVELOPMENTS IN ORGANIZATIONAL STRUCTURE

The challenge facing organizations is the need to become more flexible and responsive to changes in the external environment. There has been a shift from bureaucratic hierarchical forms of organization to flatter, more adaptable ones. The changes in organizational practices can be grouped under the following headings:

- **Flatter hierarchies**: Many organizations are de-layering their management structure in an effort to speed up decision-making and communications. The widespread use of information technology has facilitated a reduction in layers of clerical management in particular. Overall, in many companies the number of managers and in particular middle management is being reduced.
- **Emphasis on teamwork**: The use of different teams from project teams to product development teams and sales teams has become a common feature in many organizations, particularly in the technology sector. The use of the team approach is an effort to improve employee commitment and motivation, thereby increasing productivity and profitability. The subject of teamwork is covered in more detail in Chapter 5.
- **More distributed responsibility and decision-making authority**: Flatter organizations have facilitated a move to delegate authority down to lower levels in the organization than was previously possible. The emergence of teamwork has enabled decision making to be moved closer to the front line.

6. NEW APPROACHES TO DESIGNING AND STRUCTURING ORGANIZATIONS

Organizational thinking has continued to evolve in the last 100 years and with it the structure of organization continues to change. Two of the new organizational structures that have developed are:

- The Network Organization
- The High Performance Organization

The Network Organization

The network organization extends the trend of decentralisation further by granting more authority to departments and functions. Instead of the traditional hierarchical model of authority within the organization, control and responsibility is assigned to effectively independent units. The aim of this structure is to enable different parts of the organization to work together. The networking approach can be taken a step further where the network involves external suppliers and customers. Alliances with competitors can be formed where the relationship can be mutually beneficial. In the airline industry airlines that are in competition on some routes often form alliances that allow passengers to switch between airlines on different segments of long haul routes. Another form of the network approach is where an organization can outsource a part of its operation from other companies. The main company becomes a small central broker electronically connected to other companies that perform vital functions. Department are independent, contracting services to the broker for a profit (See Figure 4.4).

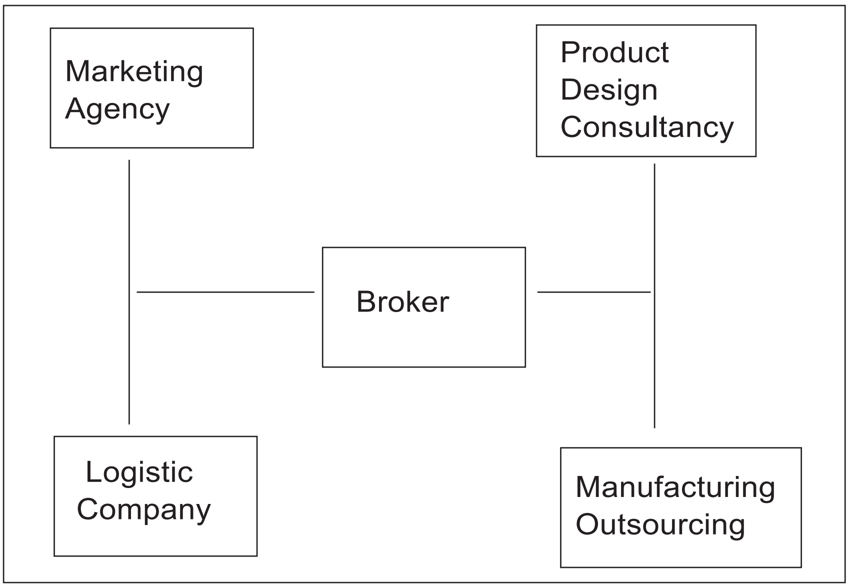


Figure 4.4: A Network Organizational Structure

A similar approach to networking is called the ***modular approach***; an example of this approach is where a manufacturing company uses outside suppliers to provide entire chunks of a product, which are then assembled by a handful of workers.

Another example is when Apple developed its iPod digital music player; it outsourced the audio chip design and manufactures a company in the US and the final assembly to a Taiwanese company. Doing this not only reduced cost and sped up production but also allowed Apple to concentrate on what it does best – design innovative products with easy to use software.

Advantages of the network approach include:

- Can draw on expertise worldwide
- Highly flexible and responsive
- Reduced overhead costs
- Disadvantages of the network approach include:
- Loss of control when key business activities are outsourced
- Loss of competitive advantage when core business activities are mistakenly outsourced
- Greater demand on managers
- Employee loyalty is weakened

The High Performance Organization

High performance organizations are structured to encourage and enable employees to deliver a high performance. Key aspects of this approach are the development of self- managed teams, decentralisation and a focus on products, services and customers. Employees are encouraged to take responsibility and also deal directly with customers and suppliers. These types of structures tend to be common in the technology sector where innovation and flexibility are needed to be able to deal with a rapidly changing environment.

7. THE MINTZBERG FRAMEWORK - FIVE TYPES OF STRUCTURE

According to Mintzberg (1979), the choice of an appropriate structure depends on the productive combination of an organization's strategy (given its size and market position), and its internal culture (what type of decision making and co-ordination does it employ, and how does its division of labour function). Mintzberg lists five types of organization:

- **Simple Structure**: This suits small organizations in a competitive environment, such as family-owned shops. Direct supervision of employees is possible in these organizations, and is necessary as they are required to react quickly to changes in the environment.
- **Machine Bureaucracy:** This is found in many large organizations that operate in a stable environment such as the civil service or large production organizations. Its main features are standardisation of work processes and centralised decision-making.
- **Professional Bureaucracy:** This is appropriate for organizations such as hospitals, which operate in a stable but complex environment. Decision-making is relatively decentralised, and co-ordination of activities is reliant on the standardisation of employee skills.
- **Divisionalised Structure:** These operate in organizations where decision-making is split between headquarters and various divisions operating in distinct markets. Machine bureaucracies can develop in each of the divisions, so that the output of each is standardised to the satisfaction of headquarters.
- **Adhocracy:** This is usually found in young organizations producing technical products, where organizational flexibility and dynamism is key. Decision-making is spread throughout the organization and specialist project teams are set up as required.igure 4.5: The Mintzberg Framework

	Simple Structure	Machine Bureaucracy	Professional Bureaucracy	Divisionalised Structure	Adhocracy
Age & Type	Small, new	Large, mature organizations	Professional	Old and large growing technology based	Young, fast
Co-**Operative** **External** Environme Nt	Simple but dynamic	Simple and Stable	Stable but complex	Simple and stable	Complex and dynamic
Examples business	Small Local	Civil Service and hospitals	Universities	consumer goods	Fast moving
Coordinatio **N** **Mechanism**	Direct supervision	Standardisation of work Processes	Standardisation of employee skills	Standardisation of output	Mutual adjustment - informal communication
Structure specialisation or formalisation	Organic, little Tall management Hierarchy	Bureaucratic management hierarchy	Relatively flat management hierarchy	Usually tall	Matrix and project team based
Decision	Centralised in	Centralised	Decentralised	Split	Spread throughout

Making	owner-manager		in the basis of expertise		the organization
Division of Labour	Minimal	Strong and Inflexible	Based on professional expertise with little formalisation	Similar to machine bureaucracy but dependent on degree of autonomy of divisions	Specialist based, and innovation based

Leading

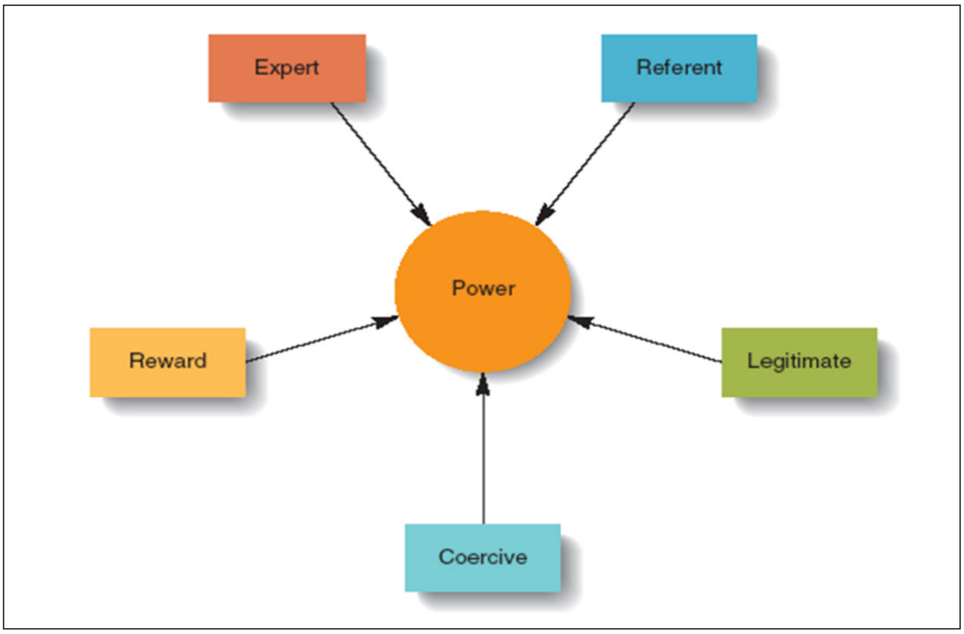
A key role of management is to direct and motivate employees to work productively, in order to achieve the organizational objectives that have been set for them. While organizations traditionally focused on directing employees in a top down hierarchical fashion the current focus in on leading and motivating.

1. DEFINITION OF LEADERSHIP

Leadership can be defined as the capacity to achieve the objectives of the organization, by showing what needs to be done and by showing how to do it. Therefore, leadership is a management process of getting results through people and other resources and involves:

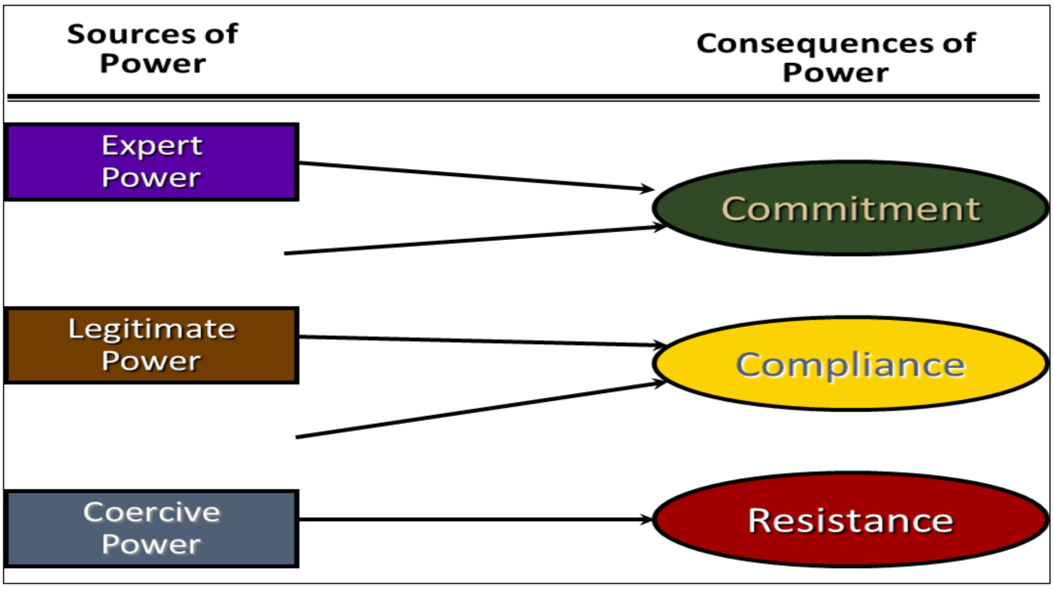
- Creating a vision for others to follow
- Establishing values
- Transforming the efficiency and effectiveness of the organization
- Organising and motivating employees by means of workgroups, teams and departments
- Organising resources in the most effective manner
- Resolving conflicts that may arise

2. SOURCES OF LEADERS L POWER



- **Reward power:** Promising or granting rewards. The ability of a manager to give or withhold tangible and intangible rewards.
- **Coercive power:** Threats or actual punishment. The ability of a manager to punish others.
- **Legitimate power:** Based on position or formal authority.
- **Expert power:** Sharing of knowledge or information. Power that is based on special knowledge, skills, and expertise that the leader possesses.
- **Referent power:** Power of one's personality (charisma). Possessed by managers who are likable and whom subordinates wish to use as a role model

Consequences of Power



3. DIFFERENCE BETWEEN LEADERSHIP AND MANAGEMENT

Leadership and management are different, but compatible qualities that are both important to the organization. While management is concerned with organizing, planning, directing, and controlling through formal authority, leadership is concerned with creating a vision for the future and developing a strategy to make the vision a reality.

Qualities

Though leadership and management qualities may overlap within the same individual, there are distinct differences. Leadership qualities tend to be visionary, passionate, creative, flexible, inspiring, innovative, courageous and imaginative. On the other hand management qualities tend to be rational, consulting, persistent, problem solving, analytical and tough mindedness. While a person may possess more of one set of qualities than the other, a manager should have a balance between both leadership and managerial qualities.

Source of Power

One of the main differences between management and leadership relates to the source of their power. Power is important in an organizational context as it linked with the ability to influence the behavior of others. The types of power associated with leadership and management are personal power and positional power, respectively.

PERSONAL POWER

Personal power comes from the leaders themselves - their interest, values and goals. Personal power promotes vision, creativity and change within the organization.

POSITIONAL POWER

Positional power is associated with management and it comes for the organizational structure. It promotes stability, order and problem solving within the structure.

The differences between leadership and management are summarized in Figure 5.1:

	Leadership	Management
Concerns	Creating a vision for the future	Organizing, planning, directing
	Developing a strategy to realize the vision	Controlling through formal authority
	Focus on bringing about change	Operation of current procedures
	Inspiring people towards higher levels of performance	Achieving goals
Qualities	Visionary, passionate, creative	Rational, consulting, persistent
	Flexible, inspiring, innovative	Problem solving, analytical
	Courageous and imaginative	Tough minded
Source of Power	Personal power	Positional power

Figure 5.1: Differences between leadership and management

4. LEADERSHIP STYLES

The fundamental difference between leadership styles has to do with where decision making rests. It is possible to identify the following five generic leadership styles as shown in Figure 5.2.

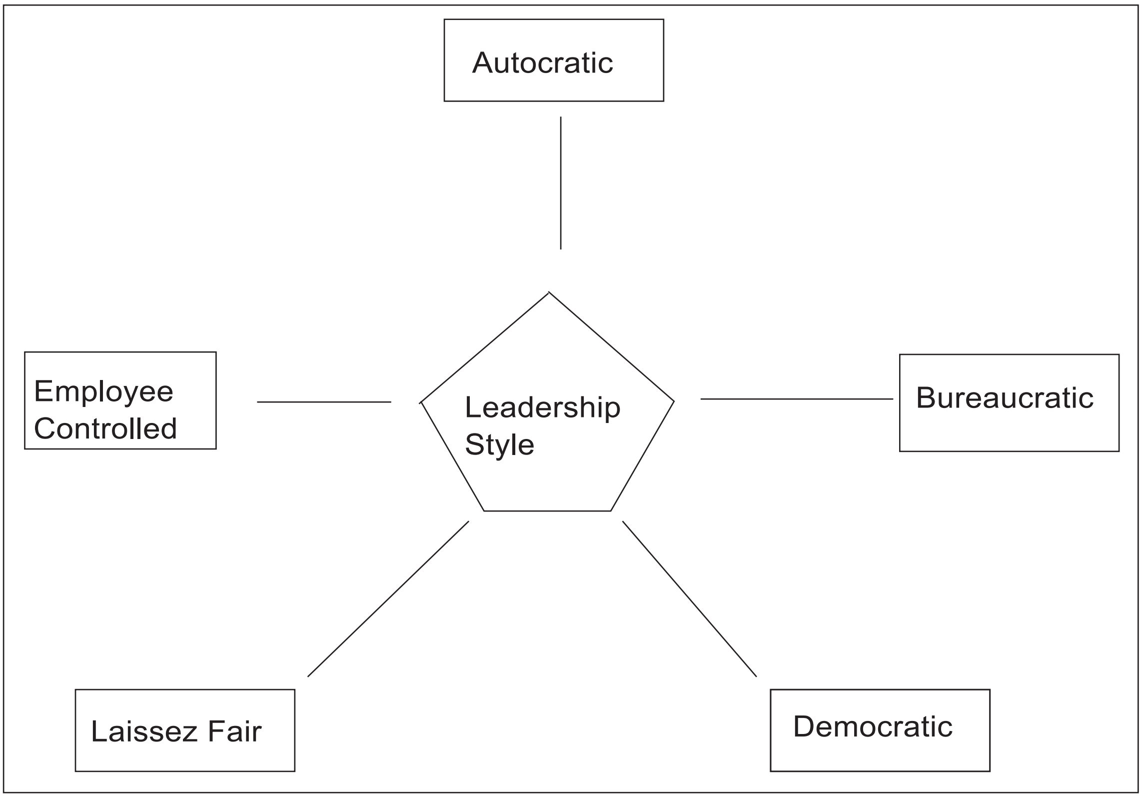


Figure 5.2: Leadership Style

Autocratic Leadership
This style of leadership involves making decision without consultation. Management retain high levels of power over subordinates through the issuing of orders. The dominant characteristics of an autocratic leader include:

- Decisiveness
- Dominance
- Aggressiveness
- Self-assurance
- Initiative

Autocratic leadership is most prevalent in the military and is most effective in emergency situations where absolute trust in the leaderships is required. Motivation will often be the result of fear and intimidation.

Bureaucratic Leadership
This style of leadership involves centralised managerial decision-making and is supported by rules, regulations and policies, which employees must follow. Because of the absence of flexibility, organizations using bureaucratic leadership will often find it difficult to cope with changes in the market place. The dominant characteristics of this type of leadership include:

- Stability
- Strength of conviction
- Deliberateness
- Persistence.

This style of leadership is most prevalent in large organizations and in the civil service.
Democratic Leadership

Democratic leadership involves wider participation in the decision-making process - it would involve employees having input in management decision making. The management characteristics associated with democratic leadership include:

- Flexibility
- Good communication skills
- Co-operation
- Openness

Organizations that rely on rigorous and consistent procedures for their success would have limited scope for democratic leadership.

Laissez Fair Leadership
This style involves management setting goals and objectives, and allowing employees a free reign to accomplish these as they see fit. It is most commonly seen in high tech industries; engineering, research and development and professions such as architecture, management consultancy and medicine. The managerial characteristics required for this style of leadership include:

- Understanding
- Good judgment
- Trust

Employee Controlled Leadership
In these types of organizations employees set goals and make decisions, while management deal with the administrative aspects of these decisions. An example of where this style of leadership would be used is in universities. Dominant management characteristics include:

- Responsiveness
- Tact
- Adaptability
- Flexibility

5. LEADERSHIP THEORIES
This section provides a summary on four main schools of thought on leadership, namely:

- The trait approach
- The behaviour approach
- The contingency approach
- The charismatic approach

Trait Theories
The earliest theories of leadership focused on traits. The basis of these theories was that it was possible to identify a set of underlying characteristics that make all great leaders great. The trait theories argue that leaders are born with particular traits such as personality traits, and physical traits that mark them out to be leaders.

Research into the universal traits possessed by leaders has produced little by way of compelling evidence. The view that leaders are born and not made is not as strongly held today.

The following is a summary of trait theories:
Traits and skills can be identified that set leaders apart from non-leaders.

The traits identified mainly concern personality, including such characteristics as dependability, intelligence, shows initiative, lateral thinker, need for achievement, visionary etc.

These traits and skills can be used to select leaders - such an approach is used in personal specifications for selection.

This approach has re-emerged as management competencies.

Behaviour and Style Theories
Results from two research groups at the Ohio State University (Stogdill and Coons, 1957) and at the University of Michigan (Likert, 1961) are described as follows:

Ohio State University Studies
These studies sought to identify and classify the various dimensions of leadership behaviour. Two categories were identified that accounted for the majority of the leadership behaviour. These two categories were called:

- **Initiating Structure style** (Task-oriented behaviour): This style reflects the extent to which the leader defines his/her role and the role of their followers in achieving established goals.
- **Considerate style** (People-oriented behaviour): This style reflects the extent to which the leader focuses on establishing trust, mutual respect and rapport between themselves and their followers and among the group of followers.

This research demonstrated that leaders that show behaviour with high levels of initiating structure style and high levels of considerate style were generally more likely to achieve higher performance among their followers.

University of Michigan Studies
These studies sought to examine the nature of the relationship between behavioural characteristics of leaders and performance effectiveness. The research produces a two-way classification of leadership; **employee-oriented** and **production-oriented** styles. Employee- oriented leaders emphasise interpersonal relations in the workplace while production-oriented leaders focus on the technical aspects of work.

The results of the study showed that the employee-oriented leaders achieved higher productivity and job satisfaction among their workers than production-oriented leaders. However, the study also found that the employee-oriented and production-oriented approaches needed to be balanced.
The results of the two studies could be summarised as follows:

- They suggest that the behaviour of the leader, rather than a personality trait, determines leadership effectiveness.
- There are two dimensions of leader behaviour; **production-oriented** versus **employee-centred** leaders.
- Employee-centred leadership is favoured over task-centred leadership.
- The most effective leaders emphasise concern for their employees.
- There are some situations where task-centred leadership is more appropriate.

Contingency Leadership Theory
These theories are based on the premise that predicting leadership success and effectiveness is more complex than simply isolating traits or behaviour. Situational factors, such as the characteristics of the employees, experience of the leader and the nature of the task being done also have an effect on the leader’s effectiveness.

FIELDER’S THEORY
Fielder Theory (1970s) was an attempt to combine leadership style and organizational situation. The idea was to match the leader’s style with the most favourable situation.

According to Fielder effective leadership is a function of four factors:

- Leader's preferred style
- Leader-member relations
- Task structure
- Leader's position power

Situational Factors

Leadership Style
Fielder identified two main leadership styles:

- **Relationship-motivated leaders:** These obtain satisfaction from having good relationships with others. They usually encourage participation and involvement and are concerned about what the other team members think of them.
- **Task-motivated leaders:** These are strongly focused on the task and emphasise procedures and task completion.

Fielder's view was that both these styles could be useful and effective in appropriate situations.

Leadership style was measured with a questionnaire known as the least preferred co-worker (LPC) scale. The LPC scale has an 18 adjectives pairs (each adjective in a pair oppose one another) along an 8 point scale.

Examples of the adjectives are as follows:

Open	1	2	3	4	5	6	7	8	Guarded
Quarrelsome	8	7	6	5	4	3	2	1	harmonious
Efficient	1	2	3	4	5	6	7	8	inefficient
self-assured	1	2	3	4	5	6	7	8	Hesitant
Gloomy	8	7	6	5	4	3	2	1	Cheerful

The manager (leader) is asked to describe the person they worked least well with- in the past (least preferred co-worker) on a scale 1-8. If the leader describes the least preferred co-worker using positive concepts, he or she is considered relationship-oriented – a leader who cares about and is sensitive to others feelings. On the other hand, if a leader uses negative concepts to describe the least preferred co-worker, he or she is considered task oriented – a leader who places greater value on tasks than on people.

Situation
Leadership situations can be analysed in terms of three elements which can be favourable or unfavourable for the leader:

- **Leader-member relations**: This refers to group atmosphere, and members' attitude towards and acceptance of the leader.
- **Task structure**: This refers to the extent to which tasks performed by the group are defined, have specific procedures and have clear explicit goals.
- **Leader's position power**: This refers to the extent to which the leader has formal authority over subordinates.

When he examined the relationship between leadership style and situational factors, and the link with performance Fielder found the following:

- When all three elements are favourable, the task oriented leader excelled because everyone got on well together, the task is clear and the leader has power – all that is needed is for someone to provide direction.
- When the situation is unfavourable to the leader, a great deal of structure and task direction is needed so a task-oriented leader will do best.
- When the situation is intermediately favourable the relationship-oriented leader will do best because human relations skills are important in achieving high group performance.

SITUATIONAL THEORY - HERSEY AND BLANCHARD

This theory focuses on the characteristics of the employee in determining appropriate leadership behaviour. According to Hersey and Blanchard, subordinates vary in their readiness level. People who are low in task readiness, because of little ability or training, or insecurity, need a different leadership style than those who are high in readiness and have good ability, skills, confidence and willingness to work.

According to the situational theory a leader can adopt one of four leadership styles based on a combination of relationship (concern for people) and task (concern for production) behaviour. The four styles are as follows:

- **Telling Style**: This style reflects a high concern for task and a low concern for people and relationships. It involves giving explicit instructions on how a task should be accomplished. A telling style is appropriate when followers are at a low readiness level because of poor ability and skills, little experience, insecurity or unwillingness to take responsibility for their own task behaviour.
- **Selling style**: This style is based on a high concern for both people and tasks. The selling style involves giving direction but also includes seeking input and clarifying the task rather than simply giving instructions. A selling style is appropriate with moderate levels of readiness. These subordinates might lack some education, experience and skills, but they demonstrate high confidence, ability, interest and willingness to learn.
- **Participation Style**: The style is based on a combination of high concern for people and low concern for production tasks. The leader shares ideas with subordinates, gives them a chance to participate and facilitates decision making. A participating style is appropriate with high levels of readiness. These subordinates might have the necessary education, experience and skills, but might be insecure in their abilities and need some guidance.
- **Delegation Style**: This style reflects a low concern for both relationships and tasks. This leader style provides little direction and little support because the leader turns over responsibility for decisions and their implementation to subordinates. When followers have a very high level of education, experience and readiness to take responsibility for their own task behaviour, the delegating style can be used effectively.

Charismatic Leadership Theories

Studies have focused on the behaviours that distinguish charismatic leaders from non- charismatic leaders. House (1977) suggests that charismatic leaders are exceptionally self- confident, are strongly motivated to attain and assert influence, and have strong conviction in the moral rightness of their beliefs.

Studies have focused on the behaviours that distinguish charismatic leaders from non-charismatic leaders.

Competencies displayed by charismatic leaders include the following:

- Compelling vision or purpose
- The ability to communicate the vision to others
- Demonstrate consistency and focus in pursuit of vision
- Know their own strengths and capitalise on them.

Transactional -Transformational Leadership

Burns (1978) looked at management differences between successful and unsuccessful companies and concluded that the key factor contributing to success was "transformational leadership". In his research he identified two types of leadership; transactional and transformational. These leadership types are summarised as follows:

Transactional leadership:

- Leaders motivate their followers in the direction of established goals by clarifying role and task requirements.
- Leaders allocate work, make routine decisions and monitor performance.
- Works best in stable situations with routine tasks.

Transformational leadership:

- Leaders have skills to recognise the need for change and identify action.
- Associated with vision, inspiration and charisma.
- Focus on high performance.
- Works best in uncertainty and change.

6. FOUR MAJOR FACTORS IN LEADERSHIP

- **Follower:** different people require different styles of leadership. For example, a new hire requires more supervision than experienced employee. A person who lacks motivation requires a different approach than one with a high degree of motivation. You must know your people. The fundamental starting point is people. This fundamental starting point is having understanding of human nature, such as needs, emotions and motivation.
- **Leader:** you must have an honest understanding of who you are. What you know and what you can do. To be successful you have to convince your followers, not yourself or your superiors, that you are worthy of being followed.
- **Communication:** you lead through way communication. Much of it is nonverbal. For example, when you set example that communicates to your people that you would not ask them to perform an anything that you would not be willing to do. What and how you communicate either builds or harm the relationship between you and employees.
- **Situation:** All are different, what you do in one situation will not always work in another. You must use your judgment to decide the best course of action and the leadership style needed for each situation.

7. PRINCIPLES OF LEADERSHIP

To help you *be, know,* and *do,* follow these eleven principles of leadership (U.S. Army, 1983).

- **Know yourself and seek self-improvement -** In order to know yourself, you have to understand your *be, know,* and *do,* attributes.
- **Be technically proficient -** As a leader, you must know your job and have a solid familiarity with your employees' tasks.

- **Seek responsibility and take responsibility for your actions** - Search for ways to guide your organization to new heights.
- **Make sound and timely decisions** - Use good problem solving, decision making, and planning tools.
- **Set the example** - *We must become the change we want to see* - Mahatma Gandhi
- Know your people and look out for their well-being
- Keep your workers informed
- Develop a sense of responsibility in your workers
- Ensure that tasks are understood, supervised, and accomplished
- Train as a team
- Use the full capabilities of your organization

8. THE PROCESS OF GREAT LEADERSHIP

- **Challenge the process** - First, find a process that you believe needs to be improved the most.
- **Inspire a shared vision** - Next, share your vision in words that can be understood by your followers.
- **Enable others to act** - Give them the tools and methods to solve the problem.
- **Model the way** - When the process gets tough, get your hands dirty. A boss tells others what to do; a leader shows that it can be done.
- **Encourage the heart** - Share the glory with your followers' hearts, while keeping the pains within your own.

9. THE MORAL FOUNDATION OF LEADERSHIP

- **Truth telling:** Telling the truth as you see it, because it allows for a mutual, fair exchange to occur.
- **Promise keeping:** Leaders need to be careful of the commitments they make, and then careful of keeping those promises.
- **Fairness:** This ensures that followers get their fair share for their contributions to the organization.
- **Respect for the individual:** Telling the truth, keeping promises, and being fair all show respect for the individual. Respect means treating people with dignity.

CONTROLING

Organizational control can be defined as the process through which managers regulate organizational activities to make them consistent with present performance standards.

Management control is designed to provide information on progress against present performance targets. Control is crucial to managers as it enables them to:

- Prevent problems for growing and becoming crises
- Standardize output in terms of quality and quantity
- Carry out performance assessment of employees
- Update plans - actual progress against planned progress
- Protect assets by preventing inefficiency and waste

1. THE PROCESS THEORY OF CONTROL

The careful design of a management control system can ensure that all employees, work teams and functional departments meet the objectives and targets of the organization with minimum deviation. The basic activities involved in a control process are:

- Setting Performance Standards
- Performance Measurement
- Corrective Action

Setting Performance Standards

Standards set out what must be achieved in terms of quantity or quality to meet the organization's objectives. Performance standards are set at a specific point in an implementation program and will assist managers in gauging the actual performance against the planned performance objectives. Setting performance standards is a key aspect of the planning process at all levels in the organization. To be effective standards must be measurable so that they can be recorded and monitored.

Performance Measurement

This stage involves measuring or evaluating actual performance against standards. There are various reasons why performance could fall below the standards set out at the planning stage:

- Standards may have been inappropriately set
- Lack of effort by employees or managers in meeting the standards
- Failure to use the resources efficiently

When examining performance results it is normal for management to concentrate on deviations that lie outside the upper and lower limits set.

Corrective Action

The final stage in the control process involves taking action to correct deviations from the standards. In some situations the standards may have to be revised especially if they are based on historical data that is no longer appropriate.

2. CATEGORIES OF CONTROL SYSTEMS

There are three general categories of control systems:

- **Feedforward**: These types of controls are implemented before the plan becomes operative and attempt to prevent problems from occurring. It analyses the inputs (e.g. human, materials and financial) to establish if they are adequate in terms of quantity and quality.
- **Concurrent**: These types of control monitor the process of transformation of inputs to outputs and enable adjustments to be made during the operation of the process. It is normal with these types of controls to have guidelines for dealing with contingencies that may arise.
- **Feedback**: This type of control monitors the quality and/or quantity of output after the transformation of input has occurred. This enables managers to decide whether to instigate new plans or continue with existing ones. A customer satisfaction survey is an example of this type of control.

The category of control to be used will depend on the stage of operation in which it is to be applied. Feedforward controls would be appropriate before the process commences while concurrent controls would be used during operation and feedback controls after operation.

3. CHARACTERISTICS OF EFFECTIVE CONTROL SYSTEMS

For an organizational control system to be effective it must be linked to the organizational strategy and be accepted by employees. The information it produces must be accurate and timely. Effective controls display the following characteristics:

- Appropriateness
- Cost Effectiveness
- Acceptability
- Focus on Critical Points and Exceptions
- Flexibility
- Reliability and Validity
- Accessibility and Comprehensibility

Appropriateness

The type of control to be used depends on factors such as the size of the organization, the area or function to which they are being applied, and the management level that they are designed for. Controls should be aligned with the organizational structure when assigning responsibility for implementing plans and for correcting any deviations. Controls should be geared to provide relevant information only and avoid generating redundant data.

Cost Effectiveness

Control mechanisms should be designed to work in a cost effective way. They control system should save more money than it costs to implement.

Acceptability

Controls should be designed in a way that avoids causing antagonism between management and staff.

Focus on Critical Points and Exceptions

Controls should focus on significant variations and on those points that are important to the overall objectives of the organization. A small deviation on one point could be more significant than a larger deviation at a different point.

Flexibility

The control mechanism should ideally be flexible to cater for changed circumstances. A budget would be an example of an inflexible control mechanism because of its inability to cater for changed circumstance.

Reliability and Validity

The information supplied by the control mechanism must be dependable and must measure what it claims to measure.

Accessibility and Comprehensibility

Employees should have access to feedback on their performance and should understand how the control process operates. This will make them more likely to get involved in the corrective actions suggested by the control mechanism.

4. FINANCIAL METHODS OF CONTROL

Financial methods of control include:

- Financial Statements
- Budgetary Control
- Financial Analysis

Financial Statements:

Financial statements are summaries of an organization's accounting records and are concerned with three key areas of financial performance: namely liquidity, profitability and general financial health. Financial statements are prepared based on past information and can provide managers with useful information about trends. The main financial statements are:

- Balance Sheets
- Income Statements
- Cash Flow Statements

Budgetary Control

Budgets are the most widely used means of planning and controlling activities at every level of an organization. Budgets are widely used as they provide a clear standard of performance within a specified time. At regular intervals during the time period addressed by the budget, actual results are compared with budget figures and this allows deviations to be detected and corrected.

In general, budgets are drawn up by middle managers in response to guidelines set by senior management and are then submitted to higher management for approval.

Note: Budgets are discussed in more detail in Chapter 11

Financial Analysis

Analysis of a firm's performance can be undertaken using a number of different forms of financial analysis which include:

- Ratio Analysis
- Break Even Analysis

Ratio Analysis

Ratio analysis can be used by managers and others to evaluate a firm's past and current performance. Ratio analysis is a useful method of comparing a company's financial performance against competing firms in the industry (benchmarking). Financial ratios are calculated from information contained in the financial statements.

The four key categories of financial ratios used by companies are:

- **Profitability Ratios**: These measure the efficiency of a firm in generating profit which is achieved by comparing its sales performance to the assets of the firm.
- **Liquidity Ratios**: This measures a firm's ability to pay back its short-term debt.
- **Leverage Ratios**: These identify the source of an organizations capital.
- **Activity Ratios**: These measure the efficiency of a firm in using the resources it deploys.

Break Even Analysis

Break-even analysis seeks to identify the point (break even point) at which revenue generated from a given volume of output matches total costs (fixed costs + variable) of that output (See Figure 3.4). Break-even analysis can be used to calculate the output volume necessary to break even or to make a specific level of profit.

Break-even analysis is widely used both in decision-making and control situations as it is reasonable easy to use.

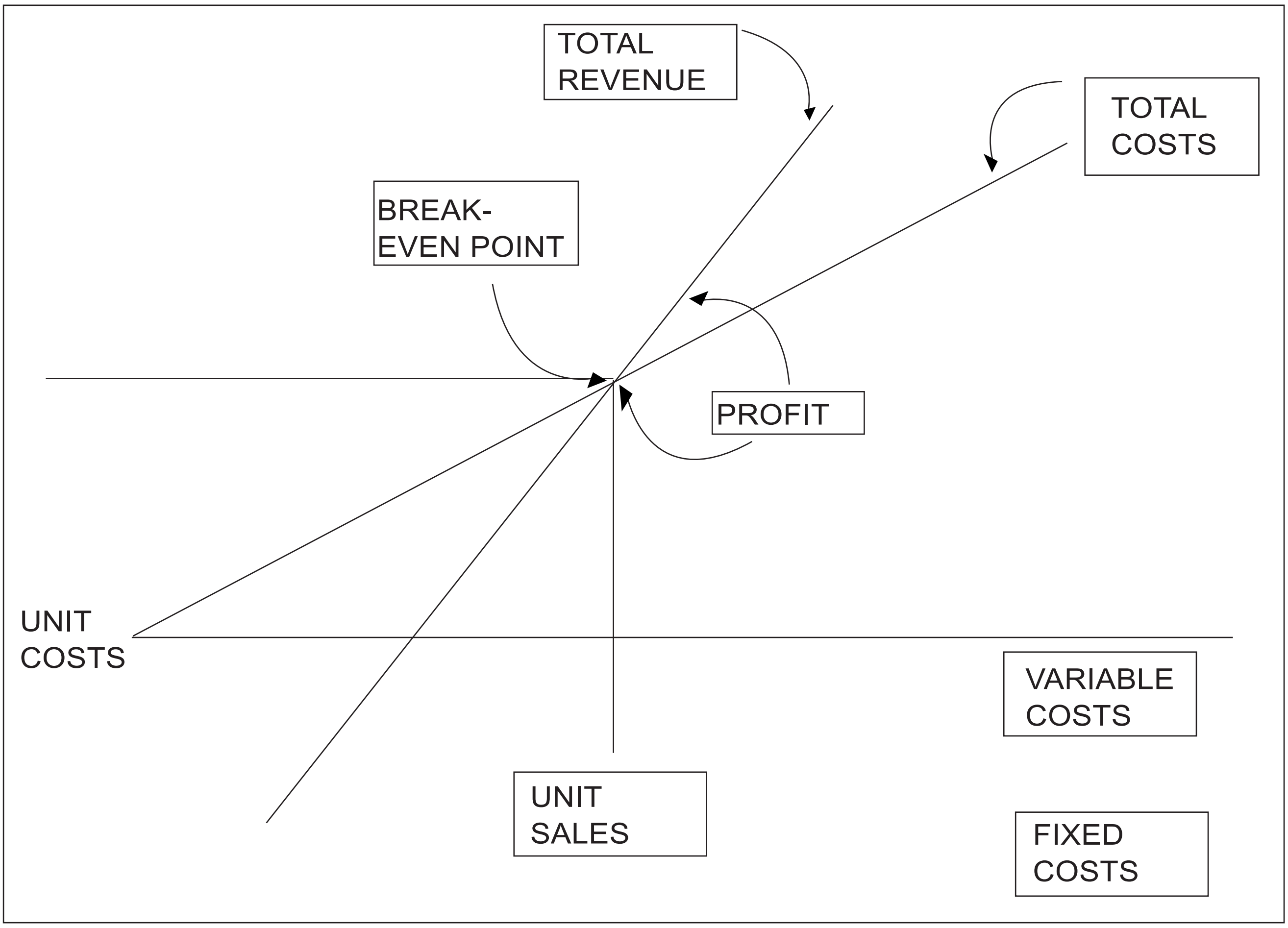


Figure 3.4: Break-Even Point

5. NON-FINANCIAL METHODS OF CONTROL

The main non-financial control methods are:

- Functional Audits
- Quality Control
- Inventory Control
- Production Control

Functional Audits

Functional Audits evaluate the accuracy of accounting and related records. These audits should be comprehensive, systematic, independent and periodic. The audits can be internal or external. Internal audits concentrate the financial health of the company - sales, resources, production etc. Audits may be conducted in each of the functional areas of the business, namely production, marketing, finance and human resource.

External audits, which relies on information that has been made public about competitor firms has the objective of analysing the performance of individual competitors or the industry as a whole.

Quality Control Systems

Quality control relates to the activities employed by a firm to achieve and maintain a certain level of quality for a product, a process or a service. Traditionally quality control was a monitoring activity but is increasingly concerned with identifying and eliminating the root causes of poor quality.

Japanese organizations introduced the concept of quality circles, which involved groups of employees getting together to solve problems in the workplace related to quality.

ISO Standardisation

ISO is an internationally recognised set of quality standards related to design, manufacture supply and servicing of products. Before a company can obtain ISO certification, they must re-examine their operations, document procedures and put a quality systems in place.

Inventory Control

The goal of inventory control is to reduce the cost of handling and storing inventory. The aim is to have adequate inventory at hand but no more than is required. To achieve this aim an inventory control system is used to indicate how much inventory should be bought and at what point it should be reordered. Factors that have to be taken into account include the lead- time involved and the amount of safety stock kept in reserve in case of problems with suppliers. The inventory control system must also decide on the Economic Order Quantity. The Economic Order Quantity is the point where the cost of ordering the goods is not greater than the cost of holding the goods. The task of inventory control has been simplified by the widespread availability of information technology.

Production Control

Production control systems are used to determine where and when a task is to be performed so that an order can be delivered at the appropriated time. These systems also support monitoring of the production process to enable early detection of problems. The type of production control system being used will depend on the organizations production methods. An assembly plant will use a flow control system to reduce bottlenecks. A specialist firm making one off products may use an order control system to track the order from design through to delivery.

2.5. THE ROLE OF HUMAN RESOURCE MANAGEMENT WITHIN THE ORGANIZATION AND THE ASSOCIATED CHALLENGES THAT MAY ARISE.

1. WHAT IS HUMAN RESOURCE MANAGEMENT?

Human Resource Management (HRM, HR) is the management of an organization’s employees. According to John M. Ivancevich, Human Resource Management (HRM), is the effective management of people at work. HRM examines what can or should be done to make working people more productive and satisfied.

According to Edwin B. Flippo, Human Resource Management is the planning, organizing, directing and controlling of the procurement, development, resources to the end that individual and societal objectives are accomplished.

2. OBJECTIVES OF HRM

The basic objective of human resource management is to contribute to the realisation of the organizational goals.

However, the specific objectives of human resource management are as follows:

- To ensure effective utilization of human resources, all other organizational resources will be efficiently utilized by the human resources.
- To establish and maintain an adequate organizational structure of relationship among all the members of an organization by dividing of organization tasks into functions, positions and jobs, and by defining clearly the responsibility, accountability, authority for each job and its relation with other jobs in the organization.
- To generate maximum development of human resources within the organisation by offering opportunities for advancement to employees through training and education.
- To ensure respect for human beings by providing various services and welfare facilities to the personnel.
- To ensure reconciliation of individual/group goals with those of the organisation in such a manner that the personnel feel a sense of commitment and loyalty towards it.
- To identify and satisfy the needs of individuals by offering various monetary and non-monetary rewards.

3. WHAT DOES HUMAN RESOURCES MANAGER DO?

Human resources manager plans, directs, and coordinates the administrative functions of an organization.

He/she oversees the recruiting, interviewing, and hiring of new staff; consults with top executives on strategic planning; and serves as a link between an organization's management and its employees.

Human resources manager accomplishes this by directing the administrative functions of human resource departments.

His/her work involves overseeing employee relations, regulatory compliance, and employee related services such as payroll, training, and benefits.

4. FUNCTIONS OF HRM

The main functions of human resource management are classified into two categories:

- Managerial Functions and
- Operational Functions

Managerial Functions

Planning: The planning function of human resource department pertains to the steps taken in determining in advance personnel requirements, personnel programmes, policies etc. After determining how many and what type of people are required, a personnel manager has to devise ways and means to motivate them.

Organization: Under organization, the human resource manager has to organize the operative functions by designing structure of relationship among jobs, personnel and physical factors in such way so as to have maximum contribution towards organizational objectives.

In this way a personnel manager performs following functions:

- Preparation of task force: (TF: is a unit or formation established to work on a single defined task or activity);
- Allocation of work to individuals;
- Integration of the efforts of the task force;
- Coordination of work of individual with that of the department.

Directing: Directing is concerned with initiation of organized action and stimulating the people to work.
The personnel manager directs the activities of people of the organization to get its function performed properly.
Controlling: It provides basic data for establishing standards, makes job analysis and performance appraisal, etc.
All these techniques assist in effective control of the qualities, time and efforts of workers.

Operational Functions
The following are the Operative Functions of Human Resource Management:

(a) Procurement of Personnel:
It is concerned with the obtaining of the proper kind and number of personnel necessary to accomplish organization goals.

(b) Development of Personnel:
Development has to do with the increase through training, skill that is necessary for proper job performance. In this process various techniques of training are used to develop the employees. Determination of the basis of promotion and making performance appraisal are the elements of personnel development function.

(c) Compensation to Personnel:
Compensation means determination of adequate and equitable remuneration of personnel for their contribution to organisation objectives.
To determine the monetary compensation for various jobs is one of the most difficult and important function of the personnel management.

(d) Maintaining Good Industrial Relation:
The personnel manager must create harmonious relations with the help of sufficient communication system and co-partnership.
If labor management relations are not good the moral and physical condition of the employee will suffer, and it will be a loss to an organisation vis-à-vis a nation.

(e) Record Keeping:
In record-keeping the personnel manager collects and maintains information concerned with the staff of the organization.
It is essential for every organization because it assists the management in decision making such as in promotions.

(f) Personnel Planning and Evaluation:
Under this system different type of activities are evaluated such as evaluation of performance, personnel policy of an organization and its practices, personnel audit, morale, survey and performance appraisal, etc.

THE MAIN ELEMENTS OF HUMAN RESOURCE MANAGEMENT

Human resource management is concerned with all personnel matters including planning for human resource requirements, recruitment, selection and induction, training and development, performance appraisal, compensation, scheduling, administration and Trade Union negotiations and industrial relations.

- Human Resource Planning,
- Recruitment, Selection and Induction,
- Training and development,
- Performance appraisal,
- Compensation,
- Scheduling,
- Management Training and Promotion
- Administration
- Industrial Relations.

1. Human resource planning

Human Resource planning is linked to management planning. It is very important when expanding a business that the HR planning is properly executed. Human Resource planning is derived from the organizational strategy, which requires that the work and job specifications entailed by the strategic objectives are translated into the number of people required, a list of the skills to be acquired or developed and a timetable to have the required people in place.

Bowey (1974) defines human resource planning as:

"An effort to anticipate future business and environmental demands upon an organization and to provide the personnel to fulfil that business and satisfy those demands".

The main objectives of HR planning are:

- To ensure that the organization finds and retains the quantity and quality of human resources that it requires.
- To ensure that the organization makes the best possible use of human resources.
- To ensure that the organization can manage the human resource implications of employee surpluses or deficits.

Human resources planning is not just about the numbers of people but also about the quality of personnel and how they can be best deployed throughout the organization in order to ensure optimum organization effectiveness and efficiency. It should therefore be clearly linked to an integrated with the organizations. It is a process, which affects every aspect of human resource management (recruitment, selection, performance appraisal, training and development, industrial relations etc), and one, which must be aligned with the corporate objectives/mission and strategic, plans of the organization.

Tyson and York (1992) suggest that sound HR planning needs to be based on the following six principles:

- The plan has to be fully integrated with the other areas of the organization's strategy and planning.

- Senior management must give a lead in stressing its importance throughout the organization.
- In larger organizations a central HR planning unit responsible to senior management needs to be established, the objective of which is to co-ordinate and reconcile the demands for human resources from different departments.
- The time span to be covered by the plan needs to be defined.
- The scope and details of the plan have to be determined.
- The plan must be based on the most comprehensive and accurate information that is available.

There are four main stages in the human resource planning process as follows:

Stage 1: Demand analysis
This stage of the process is concerned with estimating the quantity and quality of human resources required to meet the objectives of the organization. It is based upon a thorough understanding of the organizations strategy and its implication for the workforce, planned technology change, a detailed inventory of employee characteristics (age, skill level, qualifications, performance level, etc.).

Stage 2: Supply analysis
This is concerned with estimating the quantity and quality of manpower that is likely to be available to the organization. There are two major sources to be examined, namely, the internal labour market (existing employees) and the external labour market (the potential supply of manpower that is available outside the organization).

Stage 3: Estimating deficit/surpluses
As a result of conducting both a demand and supply analysis, it is now possible to compare the results of the first two stages to determine whether the supply of labour available matches the demand for labour. Equally it is possible that the supply of labour exceeds or falls short of the estimates required. Depending on the results achieved at this stage of the process, the action plan will be prepared.

Stage 4: Developing action plans.
This last stage is based on the information that the preceding stages have yielded. The purpose of the action plan is to ensure that the day-to-day human resource needs of the organization are satisfied. Plans emanating from the process will cover what the organization must do, and how it will manage recruitment, selection, training and development, promotions etc.

Employee recruitment selection and induction
Employee Recruitment is the process of obtaining the right people at the right time to best meet the need of the organization. It involves finding, hiring and holding on to people who can satisfy the technical, educational and social needs of the organization. Recruitment relies on a number of sources including promotions, advertising, employment agencies, management consultants etc.

The process of Recruitment and Selection involves a number of stages:

Recruitment

- **Manpower planning/Needs Analysis:** As part of manpower planning, a needs analysis can be used to identify staff requirements.
- **Job Description:** The vacancy is discussed with the department manager and a job description is drawn up. The job description is a detailed description of the job, which is to be carried out by the new employee, who exactly they report to, and their place in the organizational structure.
- **Attributes/Aptitudes Required:** The necessary attributes/aptitudes required of the candidate would include skill, knowledge, experience etc.
- **Establishing Conditions:** The conditions of employment, which include the type of contract, hours of work and rate of pay, are laid down.
- **Job Advertisement Drawn up**: The job advertisement is drawn up which invites interested applicants to write in for an application form or to send in a Curriculum Vita with a cover letter.
- **Advertised Internally:** A vacancy that is filled internally will usually mean promotion for the successful employee.
- **Advertised Externally:** The Company may avail of the services of an employment agency at this stage.

Selection

The purpose of selection is to select from those applicants coming forward at the recruitment stage, the one who appears most suitable for the position. Selection involves:

- **Short-listing:** Using pre-determined selection criteria a number of the original applicants are short-listed and invited to attend an interview.
- **Interview and other selection procedures**: Interviews are held to select the best person for the vacant position. The interview may be supplemented with various selection tests.
- **Offers are made**: The successful candidate is offered the position and if it is accepted the unsuccessful candidates are notified.
- **Induction and Training:** New employees will need to be inducted into the organization and trained.

Short-listing

A variety of factors influence the recruitment decision. Before any criteria may be set, those involved need to have a clear understanding of the nature and purpose of the position to be filled. This entails developing answers to the following questions, what has to be done in this job? How is it done? What background, knowledge, attitudes and skills are required for a job of this nature?

In short-listing or ranking applications (CV's) for a particular position, the following could be used:

- **Professional and academic qualifications**: Ideally the candidate should have qualifications appropriate to the role.
- **Previous Experience**: Preferable candidates have a proven track record in a comparable environment (e.g. direct experience in the areas in question in the same industry or the potential to progress quickly).

- **Fit**. Ideally there should be an appropriate match or fit between the candidates and the job. (e.g. the candidate is not over qualified for the post or currently earning a substantially higher salary etc).
- **Achievement:** Ideally the candidate has demonstrated achievement in work and other areas (e.g. has demonstrated evidence that he/she is a self- starter, shown initiative, is a good finisher etc.)
- **Personality traits**: Ideally the candidate should have the appropriate personal and managerial characteristics. However this would be difficult to assess from a CV. Some organizations hold screening interviews typically over the phone before the final shortlist is decided.

Interviews
The most commonly used selection technique is the interview. Interviews can be one on one or involve a panel of experienced interviewers. The interview should ideally be a two way process - the interviewer(s) will require certain information about the candidate, and the interviewee will require information about the firm. The key to success in interviews is preparation by both the interviewer(s) and the interviewee.
The Rodger's Seven Point Plan specifies the following criteria that can be used to judge candidates during an interview:

- Physical make up
- Attainments
- Intelligence
- Special aptitudes
- Interests
- Disposition
- Circumstances

Though widely used by all organizations, interviews do not always allow the interviewer to assess specific skills or proficiencies, and for that reason and also to avoid interview bias, many organizations supplement interviews with selection tests. The most popular selection tests include the following:

- **Intelligence Tests:** These are designed to measure thinking abilities.
- **Aptitude Tests:** These are tests of skills such as verbal, numerical, as mechanical ability.
- **Personality Tests:** These try to determine if the candidate's personality is suitable for the particular vacancy.
- **Proficiency Tests:** These measure the depth of knowledge or grasp of skills that have been learned in the past, for example typing skills.

Induction
After selection a period of induction will normally take place.
The new employees told about the firm in general, the numbers employed, products produced, markets, etc.

Information will be given on hours of work, rates of pay, overtime, holidays, pension provisions, safety, and discipline and grievance procedures.
Many organizations work from an induction checklist or form to ensure that important information regarding procedures, policies and rules are not omitted during the induction period.

Employee training and development

As business and technology is changing rapidly the organization needs to develop new skills to keep a pace. It is not always possible or practical to take on new staff to address the skill shortages. Therefore these skills need to be developed internally as part of a Learning Organization approach.

Training and development is the process of improving employee performance through learning. All training and development programmes undertaken should be linked to the organization's long-term strategy. As well as the task related skills required to implement the strategy, the focus should be on developing employees and manager to make them more productive. Training and development can sometimes be linked with the reward structure, which further reinforces desired behaviour.

The main forms of employee training and development are as follows:

- **Employee Orientation Programmes:** Process of introducing employees to the organization and its mission, to work colleagues, to supervisors, and to the various policies, practices and objectives of the organization.
- **On the Job Training:** The employee learns by doing or watching others directly within the workplace. On the job training also includes coaching job rotation temporary promotions, job rotations etc. Many commentators argue that the future workplace will be a place of continuous learning not simply in the employee's initial period with the organization.
- **Off the Job Training**: This includes internal and external training programmes to develop a variety of skills, and foster personal development, away from the immediate workplace environment. Many colleges, university and other institutions offer part time courses for those in employment
- **Apprentice Programmes:** This involves a new worker working alongside a master technician or experienced professional to learn the appropriate skills or procedures.

Evaluating the Success of a Training Program

The cost of training represents a major investment for an organization and management will want to evaluate the effectiveness of the training. The following methods proposed by Kirkpatrick can be used to evaluate the success of a training program:

- **Training-Cantered Evaluation:** Here the focus is on evaluating if the correct training methods are being used.
- **Reaction-Centred Evaluation:** This method seeks to evaluate the reaction of the trainees to the training. This is the most widely used evaluation strategy.
- **Learning-Centred Evaluation:** This seeks to measure the level of learning that has been achieved. It involves testing trainees after the training.
- **Job-Related Evaluation:** This method focuses on evaluating the degree of behaviour change on the job after the training. It measures the learning, which has been applied in the workplace.
- **Cost-Benefit Evaluation:** This method compares the benefits that have accrued from the training with the costs incurred. For example has the training resulted in increases in sales, improved customer service, or reduction in costs?

Employee appraisal

Performance Appraisal can be defined as: "A procedure and process which assists in the collection, checking, sharing, and use of information collected from and about people at work for the evaluation of their performance and potential for such purposes as staff development and the improvement of that work performance" (McMahon and Gunnigle, 1994).

Performance appraisal is a formal assessment of how well employees are doing their jobs, and it is a key function of human resource management. Its purpose is to achieve and sustain high performance standards in an attempt to ensure organizational survival. Tyson and York (1992) identify six major objectives of the performance appraisal process:

- To determine how far people are meeting the requirements of their jobs and whether any changes or action are required for the future.
- To determine developmental needs in terms of work experience and training.
- To identify people who have potential to take on wider responsibilities.
- To provide a basis for assessing and allocating pay increments and similar rewards.
- To improve communication between managers and their staff.
- To develop motivation and commitment by providing regular and scheduled opportunities for feedback on performance and discussion of work, problems, suggestions for improvement, prospects, etc.

The organization must be clear on the purpose of the appraisal system and all employees must understand this purpose. The evaluation must be fair and non-discriminatory and measure performance on important job elements and not traits that are irrelevant to job performance.

As with all control systems, the first step is the establishment of performance standards. This can be a difficult process as valid performance measures are difficult to establish. Next the employee's performance must be measured and compared with the standards expected. Then decisions can be made in regard to that performance – is training required, or are rewards to be allocated.

Research by McMahon and Gunnigle (1994) suggest that performance/objective or results-orientated appraisal methods are the most widely used. However, many organizations use key elements of different appraisal schemes in evaluating employees, with self-appraisal techniques becoming quite popular.

Appraisal Methods

Trait Rating Scale (also called Graphic Rating Scale)

In this method of performance appraisal the traits or characteristics related to the workers job are set out and the rater assesses the extent to which the worker demonstrated these traits. The traits might include job related features such as knowledge and skills and personality qualities such as initiative, intelligence, reliability etc. A scale is developed for each trait and employees are assessed and given a rating. For example if the scale was 1-5; a rating of 1 would indicate poor performance, while a rating of 5 would indicate exceptional performance. Trait rating scales do not always provide an accurate measure of performance as it can be difficult to relate traits to actual job performance. Also managers have found it difficult to judge the level of particular traits in employees.

Another approach that is used to measure performance is called behavior observation scale (BOS)

Behavior Observation Scale

This approach focuses on what the individual actually does, rather than on their capabilities and other qualities. The employee is rated on how frequently they perform specific behaviours associated with particular dimensions of the job. These would be behaviours that are critical to the success of the particular job. For example an important dimension of a salesperson's job would be customer service. So a sales person would typically be assessed on behavior that showed excellence in customer service. They would also be assessed on other dimensions of their job.

Self Appraisal

Appraisal might be more useful to the appraisee, and lead in the longer term to greater improvement if it is conducted either by the employee themselves or by a colleague of equal occupational status (Hannagan, 2005). Self-appraisal may enable a more critical analysis of one's strengths and weaknesses as the possible career consequence of admitting mistakes is removed. However there are problems with self appraisal as people will tend to overstate their successes and ignore their failings where an appraisal may form the basis for future career development.

360 Degree Appraisal (also called 360 Degree Feedback)

In this appraisal method feedback is collected from a variety of sources in addition to the manager, including peers, customers, suppliers and senior and junior staff. If a balanced view is taken, the resulting appraisal will be more informed than feedback from a single source.

The feedback process needs to be carefully managed. Special training is required for those involved in managing the process so that information collected can be used to improve the overall work and behaviour.

The disadvantage of the 360-degree appraisal is that it is expensive, time-consuming and requires high level of resources

Improving the Performance Appraisal Process

Performance appraisals or reviews should be part of a continuous overall performance management process that involves:

- Identifying performance of individuals and teams
- Measuring performance of individuals and teams
- Developing performance of individuals and teams
- Aligning performance with the strategic goals of the organization

The Performance Management Process has a number of components, which include:

- **Prerequisites**: Involves gaining a knowledge of the organization's mission and strategic goals and a knowledge of the job in question
- **Performance Planning**: This should set out the areas of a job for which the employee is responsible for producing result, the specific objectives to be achieved and performance standards to be used to evaluate how well employees have achieved each objective.
- **Performance Execution**: The employee responsibilities include a commitment to achieving goals, and collecting and sharing performance data and communication with supervisor. Manager's responsibilities include observation of performance and providing feedback and resources.
- **Performance Assessment**: Could involve management assessment, self-assessment and other sources including peers, customers etc. Multiple assessments are necessary to increase employee ownership of process, increase commitment to system and provide information to be discussed at the review.

- **Performance Review**: This is discussed in the next section
- **Performance Renewal**: The performance management cycle begins again, using insights and information from previous phases

These topics are covered in detail elsewhere in the manual. In the next section we will look briefly at performance review and improvement

Performance Review
Overview of Appraisal Meeting
During the review (appraisal) meeting three aspects of performance are addressed:

- Past: The employees behaviours and results are reviewed against objectives and standards
- Present: The level of compensation to be received as a result of the review is discussed
- Future: A set of new goals for the future are agreed and development plans are drawn up

Six Steps for Conducting Productive Performance Reviews

- Identify what the employee has done well and poorly
- Solicit feedback
- Discuss the implications of changing behaviours
- Explain how skills used in past achievements can help overcome any performance problems
- Agree on an action plan
- Set a follow-up meeting and agree on behaviours, actions, and attitudes to be evaluated

Improving Performance
The following are some guidelines that could be used to improve performance:

- Performance feedback/coaching
- Identification of individual strengths and weaknesses
- Identify causes of performance deficiencies
- Tailor development of individual career path

Source: Performance Management by Herman Aguinis (2005) Publisher: Prentice Hall

Employee compensation
The basis of good Industrial relations in an organization is the assurance that good work is rewarded with good pay and benefits. In order to hold on to good staff an organization must ensure that they are being adequately compensated. The choice of a payment system is an important consideration for organizations. The money that a person receives for carrying out work can be a major source of motivation and therefore it is imperative that an organization maintains an appropriate and equitable payment system. The particular package offered will be determined by a variety of factors, not least among them the organization's ability to pay, labour market conditions, comparable rates/levels elsewhere and possibly the bargaining strength of the Trade Union.

Employee compensation can come in the form of various pay schemes including:

- **Salary systems:** These are fixed and are based on weekly, biweekly or monthly pay periods.
- **Hourly wage or day work:** This is used for blue collar and clerical workers.
- **Piecework:** With this method employees are paid according to the number of items they produce hourly or daily.
- **Commission plans:** These are based on a percentage of sales achieved by the employee.
- **Bonus plans:** These are normally applicable to executives and salespeople and are used as an incentive for them to accomplish or surpass certain objectives.
- **Profit sharing plans:** These give employees a share of the profits on top of their normal pay.
- **Fringe Benefits:** Compensation may also come in the form of Fringe Benefits, which may include such features as sick pay, holiday pay, pension plans and health plans.

Determining Rates of Pay

The HR department will have a policy on determining rates of pay. Such a policy is necessary in order to attract top calibre staff and to motivate current employees. In order to determine the rate of pay for a specific job a job evaluation will be carried out. Currie (2007) highlights the following methods of job evaluation:

- **Ranking System:** The approach involves comparing jobs with one another without a detailed analysis of the jobs. Jobs are then ranked according to size. Pay is determined based on a jobs position in the rank. A criticism of this approach is that it tends to be subjective in the absence of a standard for assessing job sizes.
- **Job Classification:** In this approach a set of grouping or pay grades are set out in advance. Then a general job description is produced for each for the jobs in each group. Each job is compared with the general job descriptions and placed in the appropriate group which determines the pay grade for that job.
- **Points Rating Method:** With this method each job is analysed on the basis of factors such as qualifications and skills required, level of responsibility, job complexity, etc. Each factor or element carries a number of points. By assessing the degree to which a particular element is present in a job, a number of points are allocated to the job. The overall number of points allocated to a job determines the level of pay. This is probably the most commonly used method of job evaluation.

6. Other aspect of HR

Scheduling Employment

For a variety of reasons everyone cannot work from 9 to 5. Many manufacturing firms run 24 hours in three shift schedules and financial firms and stockbrokers now deal 24 hours a day. These factors added to the problem of traffic congestion means that it is not logical for everyone to start work at the same time. The scheduling of employees involves the search for the ideal balance between the needs of individuals and those of the organization. Apart from conventional 9 to 5 scheduling other forms of scheduling include:

- **Flexible Plans:** These allow an employee some say in the hours they work, as long as they work the required number of hours. Flexible plans normally require an employee to be at work during a core time such as between 2pm and 4pm. Some work types such as assembly line processes are unsuitable for this form of working.

- **Job Sharing Plans:** In this arrangement two part-time employees share one full-time job.
- **Compressed Workweeks:** An example of this is where an employee works four 10-hour days and has three days off.
- **Teleworking:** This form of working, which involves people working remotely, usually from home, is developing rapidly as new telecommunications technologies are developed.

Management Training and Promotion
In a constantly changing business environment the need for the retraining and development of managers becomes increasingly important. Also to hold onto good managers the firm must show that there is a rewarding career path for them at the firm.

Internal management training programmes include the following elements:

- **On the Job Coaching:** This is where a senior manager teaches a lower-level manager new skills and provides direction.
- **Understudy Positions:** This involves young managers working as assistants to established managers and even taking over when they are away.
- **Job Rotation:** This enables mangers to see the operation of different department or units of the organization.
- **Off the job Courses and Training:** Management development programmes have become widespread, especially in universities and management development firms and large organizations may have in-house development programmes.

It is difficult to develop a company policy in relation to promotion but where such a policy is developed it should be linked to the long-term strategy of the organization. People with potential can be actively sought within the organization, given the opportunity to obtain varied experience and skills and developed as a pool of candidates for promotion.

The long-term success of firms depends on the ability to continuously formulate and implement good strategy. Good strategists must pay attention to their own succession and promotions and transfers to top management should be strategically controlled.

Human Resource Administration
The administration of personnel involves, work controls (time cards), pay administration, tax returns, holidays and sickness calculations etc. This work is quite time consuming for organizations and it is therefore worth considering the computerisation of as much of the work as possible.

Trade Union Negotiations and Industrial Relations
Industrial relations are a key element of the overall HR environment for any organization. Industrial relations would typically address such issues as pay and conditions. Strategies aimed at coping with the business environment can be rendered ineffective by internal strife. Successful strategy implementation should therefore take account of employee relations by creating a climate of enhanced cooperation.

5. IMPORTANCE OF HRM
Human Resource Management has a place of great importance. Because of the following reasons human resource management holds a place of importance:

- It helps management in the preparation adoption and continuing evolution of personnel programmes and policies.
- It supplies skilled workers through scientific selection process.
- It ensures maximum benefit out of the expenditure on training and development and appreciates the human assets.
- It prepares workers according to the changing needs of industry and environment.
- It motivates workers and upgrades them so as to enable them to accomplish the organisation goals.
- Through innovation and experimentation in the fields of personnel, it helps in reducing costs and helps in increasing productivity.
- It contributes a lot in restoring the industrial harmony and healthy employer-employee relations
- It establishes mechanism for the administration of personnel services that are delegated to the personnel department.

Notes: Human Resource Management is concerned with the managing people as an organizational resources rather than as factors of production

INFORMATION SYSTEMS IN HUMAN RESOURCE FUNCTIONS

Payroll System

Payroll systems capture employee data such a timesheets (hours worked) and records wages paid to employees. Computer based payroll systems help businesses make prompt and accurate payments to their employees as well as reports tomanagement, employees and government agencies concerning earnings, taxes, and other deductions. They may also provide management with reports analysing labour costs and productivity.

Employee Records System

Information Systems are used to maintain employee records, which include basic employee data such as name, address, educational qualifications, salary, job title, date of hiring, positions held and dates. These systems may also be used to record details of performance appraisals. These systems can provide a range of management reports.

Training Related Systems

Employee training and retraining is an important task of the HR function. Information systems are used to deliver training and record training records. Two examples of the use of computer systems to deliver training are:

- Computer-based training (CBT)
- Web Based Training (WBT)

Computer-based training (CBT) services are where a student learns by executing special training programs on a computer. CBT is especially suitable for training people to use computer applications because the CBT program can be integrated with the applications so that students can practice using the application as they learn.
Some of the advantages of computer-based training include:

- It is possible to integrate multiple forms of media like text, audio, video, and animation.
- This provides variety and gives learners a way to use the visual, auditory, and kinaesthetic learning

- Many CBT systems and programs allow the learner to access the content in any order instead of following one set, linear path like audio and videotape
- They can provides access to huge pools of information
- The learner can access the training material from their desk
- Training can be paced to the learner’s speed and ability
- Learners can start class anytime of the day or night
- It is a cost effective way to delivery training to staff without major disruption to normal business as staff do not have to leave their desk

A disadvantage of CBT for some students is the lack of face-to-face interaction with instructors and other learners.

Web Based Training (WBT) is similar to Computer Based Training (CBT) except that it delivers the content over the Internet or an organization’s intranet via a computer with access to the Web. Usually, learners will need to be signed up for the training to receive a password and gain access to the website.

Like Computer Based Training, WBT can use a wide variety of media, including text, graphics, sound, video, and animation. If you have the right equipment and access to the training, you can use it at any time, in any place in the world. Companies with employees in different locations can save on travel costs by offering training over the Web. Learners have the advantage of attending “class” without leaving the desk, office, or home. Because Web Based Training is easy to update, the content can be kept more current. Ongoing improvements to computer technology will allow Web Based Training to get even better, faster, and more interactive with improved graphics and sound. (Source: Steinbach, R, 2000)

7. IMPACT OF E-COMMERCE

Recruitment

Companies are using the Internet in a number of different ways to recruit employees. These include the following:

Posting job Vacancies on the Company Web Site

Organizations will often advertise Job vacancies on their own Web site. This is a very cost effective way of advertising vacancies and is used by many larger companies. A disadvantage of this approach particularly for smaller companies is that it may not attract sufficient numbers of appropriately qualified or experiences candidates.

Jobsites Operated by Recruitment Companies

Organizations can use Jobsites to assist in the recruitment of employees by either posting vacancies on these websites or searching through resource databases of CVs posted by Jobseekers

Many Recruitment sites are operated by “virtual” recruitment companies. These do not have a high street presence, as would be the case with a traditional recruitment firm.

Some Jobsites are operated by traditional Recruitments companies, which can offer additional services to the jobseeker and the employer. These services might include career planning and pre-screening of employees before sending them to the employer for interview.

Communicating with Job Applicants via E-mail

E-Mail provides a quick and efficient way of communication with job applicants. It can help speed up the recruitment process by allowing documents such as CVs and Application forms to be sent in electronic format and reduces the need to handle paper documents.

Limitations with E-Recruitment

While online recruitment sites have grown in size and visits, there are many competing ways to find a job and only about 25% of those who post a job resume even get an interview. Most jobs are local jobs, and personal networks remain the most common way people find jobs along with local newspaper classifieds and just calling employers. One can conclude from this that online job sites have their limitations

Other issues include worries about confidentiality where jobseekers are sending personal details over the Internet, and employers may be inundated with CVs from unsuitable candidates

8. ROLE OF HUMAN RESOURCES IN MODERN DAY BUSINESS

Human Resource Management (HRM) is all about managing the people effectively to achieve the best outcome. HR management provides a great working environment in organizations and it helps to treat each other with respect and dignity.

Human resource is inevitable in any business, because organization only gains its competitive advantage by using its people effectively. The growth of technology and changes in the business environment has increased the importance of human resources tremendously.

The focus of the modern organizations is on the competitive growth, bringing innovative products and being the top company in the industry. Human Resource Management (HRM) is the modern version of Personnel management.

The traditional personnel management is focused only on personnel administration and basic employee relation issues. But human resources in modern day business are more diverse than the traditional practices. Human resource management integrates the traditional personnel management functions to company's goals and strategies.

Human Resource Functions in the modern world:

- Human resource planning
- Recruitment and Selection process
- Training and Development
- Policy formulation and Implementation
- Performance management
- Orientation and Induction programs
- Job analysis and Design
- Industrial Relation
- Compensation management
- Diversity management
- Welfare, Health and safety measures

An organization's HR function focuses on the people side of management. It consists of practices that help the organization to deal effectively with its people, during the various phases of the employment cycle, including pre- hire, hire and post-hire.

The major HRM activities in the pre-hire phase are human resource planning and job analysis. This involves writing job descriptions and determining appropriate venues for advertising open positions. Once right candidates are identified, human resource managers will conduct interviews conduct background checks, administer pre-employment tests and make hiring recommendations. During the hiring phase, the organization hires employees. HR managers are responsible for conducting orientation in this phase.

In the post-hire phase, the organization develops human resource management practices for effectively managing people. This helps to maximize the performance and satisfaction levels of employees, by providing them with the necessary knowledge and skills to do their job. It also creates conditions that will ease employee efforts toward meeting the organization's objectives and goals.

Today, the role of HR in the modern organization is purely strategic. The HR Professionals focus on the strategic plan of the company. They monitor the market and brings best practices in the area of human capital management. HR focuses on employees' quality and invests in their continuous development.

If human resources are not well equipped with latest technology and techniques, modern business cannot work effectively. It is the responsibility of the HR department to give proper training to the workforce, to achieve the competitive advantages of business.
It's also important to give them the reward, for employee's commitment and loyalty towards work. The most challenges, which facing by the HR in the modern world is retention of the employees, multi-cultural workforce, retrenchment of the employees, changes in the demand of the government, technology, and initiating the process of change. Organizations are becoming more knowledge based. On knowledge based industries, an organization's success depends on the knowledge, skills and abilities of employees. Even though, the change in HR role was a long journey, many organizations attained benefit of the competitive advantage.

9. CHALLENGES OF HRM

The following is a summary of the main trends that will impact human resource management:

- Skill requirements will increase in response to technological change
- Future workforces will be significantly more educated and more diverse
- Advances in technology will change the way training is delivered
- Organizational emphasis on human performance management will accelerate
- Low skilled jobs are increasingly moving to countries with lower costs
- Individuals will be required to assume more personal responsibility for their own educational, development and training throughout their working life
- The workforce increasingly needs to be flexible to respond to change Part-time contracts and temporary work is increasing
- Employees are changing jobs more frequently
- Closer alignment of pay with achieving organizational objectives
- Employees will be expected to take on more job responsibility

Productivity

A measure of the efficiency of a person, machine, factory, system, etc., in converting inputs into useful outputs. Improving productivity has always been a live issue for managements. As the profitability of an organization mostly depends on improvement in productivity therefore, managers are always striving to find ways for achieving the target of improved productivity.

The greater the output per individual, the higher the organization's productivity. Two important factors that affect individual productivity are ability and motivation. Employee ability, competence in performing a job, can be improved through a hiring and placement process that selects the best individuals for the job. It can also be improved through training and career development programs designed to sharpen employees' skills and prepare them for additional responsibilities. Motivation refers to a person's desire to do the best possible job or to exert the maximum effort to perform assigned tasks. Motivation energizes, directs, and sustains human behavior. A growing number of companies recognize that employees are more likely to choose a firm and stay there if they believe that it offers a high quality of work life (QWL).

Employee Empowerment

Employee empowerment is giving employees a certain degree of autonomy and responsibility for decision-making regarding their specific organizational tasks. It allows decisions to be made at the lower levels of an organization where employees have a unique view of the issues and problems facing the organization at a certain level.

Brain Drain

A situation in which many educated or professional people leave a particular place or profession and move to another one that gives them better pay or living conditions. OR The departure of educated or professional people from one country, economic sector, or field for another usually for better pay or living conditions.

How to stop Brain Drain

- Provide better job opportunities irrespective of caste, creed, race or nationality.
- Promote people on merit alone.
- Provide attractive salaries to highly qualified people on the basis of their qualifications and experience.
- Improve the quality of our universities and bring them at the level of universities in Europe and America.
- Provide adequate research facilities.

Ethics and Social Responsibility

Ethics is a set of moral principles or values that governs the conduct of an individual or a group. Social Responsibility -- on the other hand, is the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment. (Individual Challenges)

Common ethical issues Here are some common ethical issues that may arise in human resources:

- Honesty in recruitment
- Diversity
- Fair pay & decent working environment
- Job security
- Access to ongoing training
- Fairness in performance reviews

- Confidentiality
- Sensitivity at termination
- Some social responsibility issues include:
- Going above and beyond legal requirements for health and safety
- Services during termination e.g. counselling, career advice, extra training
- Benefits e.g. child minding facilities, fitness and wellbeing facilities

Job insecurity

Job insecurity is a chronic job stressor which impacts on the well-being of employees. Employee job insecurity has a detrimental effect on the organization. Employees who experience job insecurity are less supportive of organizational goals and do not make an effort to deliver quality work. Holm and Hovland (1999) point out that job insecurity results in an increased employee turnover rate.

Job insecurity can be conceptualized as the overall concern about the future of one's job. It comprises two components, namely the recognition of threats to job security and the concern about these threats. The likelihood of job loss refers to the cognitive aspect of job insecurity, while the fear of job loss is related to the affective aspect thereof. The cognitive appraisal of the future situation, whether certain or uncertain, triggers emotions based on the meaning connected to the potential job loss.

Matching People and organizational research

Matching People and Organizations Research suggests that HR strategies contribute to firm performance most when the firm uses these strategies to attract and retain the type of employee who best fits the firm's culture and overall business objectives. For example, one study showed that the competencies and personality characteristics of top executives could hamper or improve firm performance, depending on what the firm's business strategies are. Fast- growth firms perform better with managers who have a strong marketing and sales background, who are willing to take risks, and who have a high tolerance for ambiguity. However, these managerial traits actually reduce the performance of mature firms that have an established product and are more interested in maintaining (rather than expanding) their market share.

Other research has shown that small high-tech firms benefit by hiring employees who are willing to work in an atmosphere of high uncertainty, low pay, and rapid change in exchange for greater intrinsic satisfaction and the financial opportunities associated with a risky but potentially very lucrative product launch

Cost controlling

If your business is under pressure to reduce costs, you're probably feeling it in the HR department, which has historically been seen as a cost center, not a profit center. In both boom and bust cycles, it's more important than ever to control HR costs.

Human resource costs constitute a significant portion of the total operating costs in many industrial organizations. An overview of various types of human resource costs is given in the following Table

Methods for Controlling the Costs of Human Resources

The four methods used to control the costs of human resources are as follows:

- Management by Objectives (MBO)
- Ratio Analysis
- Personnel Productivity
- Personnel Reports and Budgets.

Improving quality.
The second way to gain a competitive advantage is to engage in continuous quality improvement. Many companies are implementing total quality management (TQM) initiatives, which are programs designed to improve the quality of all the processes that lead to a final product or service. In a TQM program, every aspect of the organization is oriented toward providing a quality product or service.

Distinctive competency/capability
A distinctive competency is a competency unique to a business organization (or a competency superior in some aspect than the competencies of other organizations) which enables the production of a unique value proposition in the function of the business. A distinctive competency is the basis for the development of an unassailable competitive advantage. The uniqueness differentiates this competency from all others, whether a core competency or simply a competency.

Sources of distinctive competency
Distinctive competencies, the basis for competitive advantage, can come from technology, industry position, market relations, cost, business processes, manufacturing processes, people, customer satisfaction, or just being first. The insightful integration of complementary elements of the business model is the strongest form of competitive advantage known. This is because it is so difficult for competitors to understand and even more difficult to replicate, especially when the business model elements of value, purpose, vision, culture, and identity are intertwined in a powerful business solution.

Examples of distinctive capability
Toyota has a distinctive competency in lean manufacturing.
GE has a distinctive competency in management development.

Restructuring
Restructuring is the corporate management term for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Other reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or major change in the business such as bankruptcy, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring.
The restructuring of Human Resources is difficult as it always include the changes in the job profiles of HR employees and it includes the changes in the organizational structure of Human Resources and it affects the way, how employees do the job.
When planning the restructuring of HR, it is always important to find the strong project managers, who will be able to minimize the damages caused by the constant and quick changes in the HR Processes and HR Procedures. The strong project managers are able to manage and drive the process side of the HR. ´The restructuring of Human Resources is not simple, but it can bring huge benefits.

Environmental Challenges
Environmental challenges refer to forces external to the firm that are largely beyond management’s control but influence organizational performance. They include: rapid change, the internet revolution, workforce diversity, globalization, legislation, evolving work and family roles, and skill shortages and the rise of the service sector.

Rapid change: Many organizations face a volatile environment in which change is nearly constant. If they are to survive and prosper, they need to adapt to change quickly and effectively. Human resources are almost always at the heart of an effective response system.
Workforce diversity: Similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, sex, and sexual orientation is called workforce diversity.

Technological changes: The world has never before seen such rapid technological changes as are presently occurring in the computer and telecommunications industries. One estimate is that technological change is occurring so rapidly that individuals may have to change their entire skills three or four times in their career. The advances being made, affect every area of a business including human resource management.

Legislation: The main function of the HR department is to ensure the organization is fully aware of any relevant legislation. ´All policies and procedures should be in line with current legislation. Legislation is continually being updated which makes this an ongoing task for every organization

Skill Shortage

Insufficient supply of appropriately qualified workers available or willing to work under existing market conditions is known as skill shortage.
Causes of Skill Shortage should be Globalization, Credentialism Responses to skill shortage, Business responses, Government responses.

Globalization

Globalization is an influential modern topic that highlights the growing interdependence between different countries worldwide, necessitating managers to appropriately incorporate this trend within their strategies. The speed of modern globalization is often attributed to technological developments in communication and transportation, tasking managers with appropriately leveraging these technologies internally.
Managers must understand that some processes can be performed universally and internationally, while others must be done in a localized fashion to adhere to each specific region's tastes and customs.
Critics of globalization cite the way in which it motivates an international culture over established domestic ones, as well as the negative environmental effects that result from business expansion. Being mindful of the potential opportunities in a global economy, along with knowledge of how to localize and sidestep the negatives in an international marketplace, can capture large value for effective managers.

Family Role

More and more companies are introducing "family-friendly" programs that give them a competitive advantage in the labor market. These programs are HR tactics that companies use to hire and retain the best-qualified employees, male or female, and they are very likely to payoff. For instance, among the well known organizations firms, half of all recruits are women, but only 5% of partners are women. Major talent is being wasted as many women drop out after lengthy training because they have decided that the demanding 10- to 12-year partner track requires a total sacrifice of family life. These firms have started to change their policies and are already seeing gains as a result. Different companies have recently begun offering child-care and eldercare referral services as well to facilitate women workers as well as are introducing alternative scheduling to allow employees some flexibility in their work hours.

Changing Demands of Employees

The demand for new employees is different from that of their predecessors. Contemporary employees are not only happy with the money; they demand more freedom and autonomy in the workplace. They are more concerned about intrinsic motivational factors such as challenging job, recognition, and appreciation. They want more time for leisure, recreation, and self-development. They would like to balance work life and family life. The comment made by Greenhaus (2009) in this regard is noteworthy.

Outsourcing

It is the practice of hiring another firm to complete work that is important and must be done efficiently. Outsourcing refers to companies giving work to independent contractors outside the company rather than to in-house employees. Outsourcing is a major part of HRM's role in a company, as many companies choose to hire freelance workers to complete additional tasks rather than taking on salaried employees in-house. When outsourcing, HR managers do not need to consider overheads like taxes, medical insurance, working equipment cost or benefits, as these are met by the freelancers themselves.

Study Unit 3

Marketing

Contents

3. 1. THE CONCEPT OF MARKETING AND ITS ROLE IN BUSINESS

1. THE MARKETING DEFINITION

"The process of studying the wants and need of others and then satisfying those wants and needs with quality goods and services (i.e. products) at a competitive price" (Nickels, McHugh, McHugh 1991).

It is a human activity devoted to satisfying needs and wants through an exchange process. It entails determining customer needs and wants and the delivery of those goods or services to satisfy the customer needs.

Therefore, marketing involves the entire process of providing products to consumers and isn't solely concerned with a firms advertising or promotional activities.

The job of the marketer revolves around the following:

- Understanding the needs of consumers.
- Determining and creating wants - desires for specific satisfaction of deeper needs.
- Satisfying and managing demand - wants for specific products that are backed up by an ability and willingness to buy them.

THE MARKETING FUNCTION

- The basic function of marketing is to determine consumer needs,
- Supply goods and services to satisfy those needs and at the same time endeavor to achieve organizational goals.
- It involves planning, organizing, directing and controlling all the above activities.
- The task of achieving the twin objectives of consumer satisfaction and organizational goals is however, a very difficult one.

EVOLUTION OF THE MARKETING CONCEPT

Marketing has been an important part of business for many years though its focus has changed over the years. Part of this change involved adopting different concepts, from the **Production concept**, to the **Product Concept,** to the **Selling Concept,** to **the Marketing Concept** and to the **Societal Marketing Concept**

- **Production Concep**t: Companies pursuing this strategy believe consumers prefer products that are widely available and inexpensive. Their focus involves exploiting economies of scale.
- **Product Concept**: This holds that consumers will favor those products that offer the most quality or performance.
- **Selling Concept:** This holds that if consumers are left alone they will not ordinarily buy enough of the organizations products. These companies see their task as persuading customers to purchase their products through promotion and personal selling
- **The Marketing Concept:** The Marketing Concept holds that the key to organizational success lies in determining the needs and wants of the target market and delivering products that meet these needs more effectively and efficiently than competitors**.** The Marketing Concept comprises the following four main pillars:
    - Market Forces
    - Customer Orientation
    - Co-ordinated Marketing
    - Profitability

- **The Societal Marketing Concept:** The societal marketing concept is concerned with ethical and sustainable marketing. The aim is to satisfy market demand but do so in a way that maintains or improves societies wellbeing. Marketers need to balance three considerations in setting their marketing policies:
  - company profits
  - customer wants and society's interests.

ROLE OF MARKETING IN MODERN ORGANIZATION

Marketing procurement process as a practice has risen with the growth in technological changes that have been happening in recent times. Which is why, companies are trying hard to find new & innovative ways to keep marketing momentum going and growing, while dealing with budget cutbacks and rapid fluctuations in the market. • In recent past years, companies have started recognizing the importance of the marketing procurement process as it helps smoothen business operations. Marketing Procurement process plays an important role in delivering sustainable business growth.

Major Role of Marketing

Widen Skill Sets: Whether you are an architect, attorney or an accountant, outsourcing marketing activities allows you to focus on what you do best. Hiring a B2B agency means gaining an insight & knowledge of an entire team of marketing experts that would use best practices to reach target audience. An effective marketing procurement process help companies access every marketing talent available, without employing permanent employees. By outsourcing, one can access versatile professionals with proven backgrounds in business strategy, content marketing, communications, web design, graphic design, SEO and internet marketing.

Avoid Wasteful Overhead Budgets are mostly tighter for marketing department. Rather than paying a person monthly salary, that too for various posts like designer, writer, video maker, editor, printing staff etc. and also other benefits like drinking coffees, teas & giving privileges to talk about what happened between Greg & Tia in last episode, you could pay an agency for only the total time spent on your actual budget. By outsourcing marketing to an integrated agency, the firms can fetch benefits from expertise of an entire team of creative professionals for less cost than hiring a full-time employee.

Save Time In-house marketing takes precious time away from your clients and direct business development. You are not required to spend hours writing a white paper, making visuals, posting on your firm's social media accounts, or learning about digital ads. • Outsourcing activities as a form of systemic marketing procurement process allows your team to focus on what really matters: providing the best service possible to the highest number of clients.

Retain and Create Clients Winning clients is not that too easy. In-house marketing efforts are often too narrow in scope and frequency to build a trusting relationship with audience is also less. Procuring a marketing company means improving long-term ROI with an impressive message consistently delivered to a targeted audience. • Marketers can seamlessly synchronize the end-to-end customer experience and touch each stage of buying cycle with agile, relevant and timely marketing campaigns.

Leverage Technology Benefits Marketing technology tools increase productivity, efficiency and performance. There are tools you can find for free or less cost, but often they are limited on producing results. But performance-driven agencies help you access premium-level services, software, and analytical data reports. • Bring Transparency Over Spends • With the right firm, you get complete access to all your data and insights; there is no room of hidden fees. You get to see the total transparency. You can clearly check the amount of charge allocated for every single design, activity, and specific job or for a whole project.

Reduce Learning Curve In today's modern time, Digital marketing is in buzz. The agencies constantly be up to speed & follow the latest developments done for digital marketing trends on a regular basis. It is part of their job description. Do you think an in-house marketer has time to read up on all the latest SEO, social media, technology, content marketing, and branding news? Usually, they are so busy in day-to-day tasks, there is no room to continuously grow, change, and evolve.

The benefits of successful marketing strategies
Successful marketing strategies help in not only understanding the consumer and his needs but also in the following ways:
It promotes awareness among the public – the consumers get the opportunity to know about the various products that are available in the market. Imagine, how would you come to know about, lets say, the latest mobile phones, without advertising or marketing?
It helps in boosting sales – apart from public awareness, advertising also helps to boost revenue growth. Whatever your business might be selling, it will obviously generate sales once the people come to know about it through TV advertisements and commercials, billboards, newspaper advertisements, etc. And more the people see and hear about a new product, the more they will be interested to buy.
It builds company reputation – that is, it helps in creating brand name recognition. That is a technique by which the consumers associate the brand name with the images and captions that they see and hear in the advertisements.
It helps in fostering healthy competition – consumers are the ultimate benefiters who, because of this competition among different brands, can demand high quality and low price. It also helps in generating revenue for many other companies, either directly or indirectly. For example, advertising, which is an integral part of marketing influences television, magazines and local and national newspapers.

Effective sales of products require the following skills on the part of the seller:
(i) Skill to Retain the Consumer:
Marketing process does not end with one time sale of the product. Repeat business is necessary for continuance of the product. Consumers come from different strata of society. Their attitudes are influenced by their cultural and social background. Collecting data on market environment is an important feature of marketing.
Different consumers have different expectations and attitudes. Gap between expectations and their fulfillment leads to frustration. Producers have been initiating a series of measures to narrow this gap. To retain your existing consumer base, you must constantly make efforts to render personalized service to your consumers.

(ii) Creative Selling:
Here the producer has to aggressively seek to satisfy the consumer needs. This requires a sound knowledge of the company's product as well as understanding of the consumer. Marketing starts with assessing the needs of the consumers and then tries to meet them via product planning, pricing and other ways.
It is preoccupied with the need to convert the product into cash. Creating selling requires both persuasive and informative efforts on the part of the salesman. Creating selling often implies educating and influencing the immediate behaviour of the prospect.

(iii) Skill to Overcome Consumer Resistance:
Successful marketing strategy should result in actual sale of the product to the consumer. Unless the prospective consumer is convinced about the suitability of the product for his needs, he would not buy it. The salesman has to use convincing arguments. He must be a good advocate for his company and the product.
He has also to be aware of the competitive products and their weak points. Before deciding to purchase, the consumer may raise many queries, doubts and even objections. The salesman should respond persuasively and skillfully to stress the benefits of the product and how it will satisfy the consumer's need.

(iv) Interpersonal Skills:
The skill of the interpersonal communication is considered to be the most important of all the skills which makes for healthy relationships with the people. It represents the type of communication that involves two persons communicating directly. The people who are involved in actual delivery of the product to the consumer have to acquire interpersonal skill of a very high order. They have to be enthusiastic, full of energy and should have a liking for interacting.

(v) Convincing Skill:
The salesman not merely sells the product but in the course of the deal he also provides his customer with much knowledge about the product, its features and uses as also about competitive products available in the market. In the case of an industrial product, a salesman is virtually a technical expert. So a salesman seldom makes a cut and dry proposal for exchange.

MARKET SEGMENTATION, TARGETING AND POSITIONING

Markets consist of buyers and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, variable markets into smaller segments that can be reached more efficiently and effectively with product and services that match their unique needs. Market research gives an organization a better idea of the options it can pursue within the market place.

Selecting the market to which it is most suited is often seen as a three-stage process:

- **Market Segmentation:** This involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviours who might require separate products or marketing mixes. Segmentation is essentially the identification of subsets of buyers within a market who share similar needs and who demonstrate similar buyer behaviour. It involves developing measures of segment.
- **Market Targeting:** This involves evaluating each market segment's attractiveness and selecting one or more of the market segments to enter.
- **Market Positioning:** This involves setting the competitive positioning for a product and creating a detailed marketing mix.

Market Segmentation

Market Segmentation consists of breaking the total market into segments that share common properties such as:

- Common wants of consumers
- Purchasing power
- Geographical location
- Buying attitudes or practices

The ultimate degree of market segmentation is customised marketing where sellers design a separate product for individual buyers. Airline manufactures such as Boeing customise airplane for different buyers. However for smaller businesses it isn't profitable in most cases to customise products at the individual level, so manufactures identify classes of buyers who differ in their broad requirements. By focusing on a segment of the market the organization is able to get a better understanding of those customers specific needs and as a result can develop products that meets those needs better. Market segmentation can be carried out at several different levels:

- **Mass Marketing** (No segmentation or undifferentiated marketing): This is where the firm decides to ignore market segment difference and targets the whole market with one offer. This mass market strategy focuses on what is common in the needs of consumers rather than on what is different. Coca Cola use this strategy.
- **Segmented marketing** (or differentiated marketing): This is a strategy where a firm decides to target several market segments and designs separate offers (product or services) for each. Most of the major car manufactures would adopt this approach.
- **Niche marketing**: Instead of going after a small share of a large market the firm concentrates on a few smaller segments or niches and tries to gain a large share of the niche market. This is an attractive strategy when company resources are limited.
- **Micro marketing (**customised products): This strategy involves customising or tailoring products/services and marketing programs to suit the tastes of specific individuals and locations.

Companies developing their strategy for segmentation can choose one of several variables or bases from a wide range of choices, which include the following:

- **Demographics:** This method uses characteristics of peoples such as age, gender, family lifecycle (single, married, married no children, married young children, retired, etc.) social class, etc.
- **Geographic:** This uses, country, region, area (urban or rural), etc
- **Buyer Behaviour:** Occasions (are they regular, occasional buyers); Benefits sought (quality, convenience, speed etc); User rates (light, medium or heavy users); Loyalty status (none, strong, medium); Attitude to product (positive, negative, indifferent).
- **Personality, Motives and Lifestyle:** (referred to as psychographic)

Market Targeting

he second step in market selection calls for market targeting. The company now has to evaluate the various segments and decide how many and which ones to serve.

In evaluating market segments, a marketer must look at a number of factors:

- **Segment size and growth**: Companies must collect and analyse data on current sales, projected sales growth rates, and expected profit margins for the various segments. The company will be interested in segments that have the "right" size and growth characteristics. The largest, fastest-growing segments are not always the most attractive ones for every company. The company must consider competition and whether their company resources are sufficient to pursue the opportunity.
- **Segment structural attractiveness**: The Company must assess several major structural factors that affect long-run segment attractiveness. Areas to consider include:
    - Current and potential competitors.
    - The threat of substitute products.

    - Relative power of buyers.
    - Relative power of suppliers.
- **Firm's objectives, strategies and resources:** The company needs to examine its own objectives and resources. The opportunity should provide a good fit. The environmental hazards of pursuing the opportunity must also be considered. "Can the company succeed in gaining this segment?"

Targeting Strategies
The company must also decide on the type of marketing strategy to adopt**:**

- **Undifferentiated Marketing**: This is where a firm decides to ignore individual market segment difference and targets the whole market with one product or service offer.
- **Differentiated Marketing**: This is where a firm decides to target a number of market segments & designs a separate marketing mix for each.
- **Concentrated Marketing**: This is where a firm targets one or more niche market segments.

Market Positioning
A product's position is the way the product is defined by consumers on important attributes; i.e. the place the product occupies in consumer's minds relative to competing products. Because consumers cannot re-evaluate products every time they make a buying decision, they "position" products, services, and companies in their minds. The marketer seeks to position a product so that it is perceived to posse key variables considered important by consumers. The objective is to create and obtain a distinctive place in a market for a company and/or its products. Marketers must therefore:

- Plan positions to give their products the greatest advantage in selected target markets.
- Design marketing mixes to create those planned positions.

Positioning Strategy
The following steps should be taken to position a product or service in the market place to gain the best advantage:

Step 1:
Identify possible competitive advantages.

- The key to winning and keeping market share is to understand customers' needs and buying processes better than competitors and deliver more value.
- Competitive advantage over competitors is gained by offering consumers greater value, either through lower prices or by providing more benefits that justify competitive advantage.
- Competitive advantage can be achieved by differentiating ones products from those of competitors. Differentiation can be based on product features, performance, style and design, or attributes. The whole marketing mix can be used to differentiate a product.

Step 2:
Select the right competitive advantage – criteria for determining which differences to promote.

- Find USP (unique selling proposition) if possible. Ideally the advantage should be important, distinctive, superior, communicable, pre-emptive, affordable and profitable.

Step 3: Communicate and deliver the chosen position

- Take strong actions to deliver and communicate the desired position to target consumers.
- The marketing mix must support the positioning strategy
- The positioning strategy must be monitored and adapted over time to match changes in consumer needs and competitors strategies

Market Planning

Marketing planning is a systematic process that involves assessing marketing opportunities and resources, determining marketing objectives and developing a plan for implementation and control. The objective is to create a marketing plan. The marketing planning cycle indicates that marketing planning is a circular process.

Marketing plans vary in duration: Short-range plans cover one year or less. Medium-range plans encompass two to five years. Long-range plans extend beyond five years.

Marketing plans should do the following:

- Specify expected results so that the organization can anticipate what its situation will be at the end of the current planning period.
- Identify the resources needed to carry out the planned activities so that a budget can be developed.
- Describe in sufficient detail the activities to take place so that responsibilities for implementation can be assigned.
- Provide for the monitoring of activities and results so that control can be exerted.
- Lead to the implementation of the organization's marketing strategy.

The three core steps of marketing planning are **analysis**, **strategy** and **implementation**.

Elements of the Marketing Plan

The output of the planning phase is the marketing plan. The plan outlines the process involved in analysing the marketplace, the decisions made by marketers and senior managers in terms of marketing mix and marketing strategy, and the action plans required to implement strategy.

The seven key elements in a marketing plan are as follows:

- **Situational Analysis:** This provides background information on the marketing environment, the market itself, competitors and the 4 Ps.
- **SWOT Statement:** This identifies the main opportunities and threats that face the firm of the product in question and the strengths and weaknesses of the firm.
- **Marketing Objectives:** The objectives of the plan are identified, which include a forecast of sales volume and value, the desired market share and profit objectives.
- **Marketing Strategy:** This is the key part of the plan, which details the marketing mix to be employed.
- **Action Plan and Programmes:** These identify how the strategy will be implemented in terms of what is going to be done, who is going to do it, what is the time frame involved and how much is it going to cost.

- **Financial Details:** The expected financial returns in terms of a Cash Flow statement, a Profit and Loss statement and a Balance Sheet, is put forward.

Product Market Strategy (Ansoff's Matrix)
An important planning task is to decide the best approach to positioning a product in the marketplace. Igor Ansoff identified that the basis for strategic advantage lay in the options that arose from combining the product and market mix. He identified the following options:

- **Market Penetration:** The objective is to gain market share for the current mix of products and markets by undertaking activities such as improving quality, productivity or increased marketing, and generally involves the organization in being more aggressive in marketing.
- **Product Development:** This strategy involves building on the organization's current knowledge and skills to develop new products within the existing market. Drivers for such a strategy include changing customer needs. High risks are involved in terms of pioneering costs and demand uncertainty.
- **Market Development:** This approach is based on venturing into new markets with the current product or service. This could include entering new segments as well as increasing the geographical scope, including exporting.
- **Diversification:** This involves developing new products for new markets. There are two types of diversification:

    - **Related Diversification:** This involves moving into a new area of business, but within the existing industry that is served. Advantage is gained through the benefits the relationship to the current business.
    - **Unrelated Diversification:** Involves development beyond the present industry into areas where there is no apparent relationship to current business.

The various product market strategies, also known as Ansoff's competitive strategies or Ansoff's matrix or grid is shown in figure 10.5.

		Product	
		Existing	New
Market	Existing	Market Penetration	Product Development
	New	Market Development	Differentiation - related

Figure 10.5: Product Market Strategies - Ansoff's Matrix

The Marketing Mix in Market Planning

Taking account of the product market strategy that has been chosen, the marketer must integrate the other elements of the marketing mix into a coherent marketing strategy. The marketing mix will evolve to meet market requirements over the planning period and may also differ according to the market being targeted.

3.2. THE IMPORTANCE OF CUSTOMER RELATIONS, MARKET RESEARCH AND MARKETING COMMUNICATIONS

1. CUSTOMER RELATIONSHIP MANAGEMENT

Customer relations describes the ways that a company will engage with its customers to improve the customer experience. This includes providing answers to short-term roadblocks as well as proactively creating long-term solutions that are geared towards customer success. Customer relations aims to create a mutually beneficial relationship with the customer that extends beyond the initial purchase.

Customer Relationship Management (CRM) is one of the most important concepts of modern marketing. It is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Companies are targeting fewer, more profitable customers. They are beginning to assess carefully the value of customers to the firm. Called selective relationship management, many companies now use customer profitability analysis to target their best customers.

Importance of Customer Relationship Management

Today's companies are using customer relationship management to retain current customers and build profitable, long-term relationships with them. On average, it costs five to 10 times as much to attract a new customer as it does to keep a current customer satisfied. Companies are also connecting more directly with customers. Direct marketing is booming.

That's why it is important to build strong relationship with customers. The better the relationship, the easier it is to conduct business and generate revenue. But, at the same time, new customer acquisition will always be a business driver.

Customer Relationship management is the strongest and the most efficient approach in maintaining and creating relationships with customers. Customer relationship management is not only pure business but also ideate strong personal bonding within people. Development of this type of bonding drives the business to new levels of success.

Once this personal and emotional linkage is built, it is very easy for any organization to identify the actual needs of customer and help them to serve them in a better way. It is a belief that more the sophisticated strategies involved in implementing the customer relationship management, the more strong and fruitful is the business. Most of the organizations have dedicated world class tools for maintaining CRM systems into their workplace.

Growing Share of Customer

Customer relationship management can help marketers to increase their share of customer customer's purchases. To increase the share of customer, firms can leverage customer relationships by offering greater variety to current customers. Or they can train employees to cross-sell (related products) and up-sell (higher value products and services) in order to market more products and services to existing customers.

Satisfying the Customer Needs

According to Peppers and Rogers there are four basic steps in CRM:

- Identify your customers in as much detail as possible, including demographics, psychographics (Interests, Attitudes, and Opinions), habits, and preferences.
- Differentiate among them (for example, most and least profitable).
- Interact with your customers (make this interaction more cost effective through automation whenever possible).
- Customise your offerings to fit each customer's needs through mass customisation or individual tailoring

Through these four stages, a company is better able to learn and understand its customers and provide more relevant and customised offerings.

Building learning relationships may be easier for companies in some industries than others. Travel agencies know their customers and their preferences. Most large retailers do not— unless they provide their customers with something of value in order to collect customer information, such as supermarket ID cards. In return for completing an application form and letting the supermarket record your purchases against your demographic data, the shopper will often get discounts on items. Once a company learns about its customers, it must be able to tailor its products, services, or promotions to cash in on the learning relationship. Hotels can record guests' preferences (rooms, newspapers, restaurants, time of servicing the room, promotional specials etc.) and deliver these customised preferences upon check-in or throughout the stay. Other retailers would have a harder time supplying such customer customisation.

Maximize the revenue

While acquisition should be a constant activity, retention of existing customer should also be an important focus area. Customer Relationship Management tools help achieve customer profitability maximizing balance.

Managing company interaction

CRM helps in managing company interaction with customers using various tools and techniques to evaluate customer data and interactions. It helps in improving marketing strategies to retain existing customers, improve customer service, attract new customers, improve sales process and reduce customer acquisition costs.

Electronic customer relationship management (E-CRM)

Electronic customer relationship management (E-CRM) is an electronic communications approach used by companies to establish, develop, and manage relationships with customers. It helps a company communicate effectively with customers through the Internet. Communications through eCRM range from sales and customer service to electronic customer satisfaction surveys. These communications usually occur through the company's Web site.

Although CRM and eCRM share the same goals and focus, they have some basic differences. eCRM is essentially an online version of CRM. It provides a company with an additional channel to communicate with their customers. Although eCRM needs more advanced technology than traditional CRM systems, the opportunities presented to customers during one visit to the company's Web site far outweigh the opportunities they experience through telephone, fax, or mail.

A company can succeed at managing customer relationships most effectively by incorporating a combination of eCRM and CRM strategies throughout the organization.

Customer Relationship Management (CRM) Systems

CRM systems attempt to integrate customer-serving processes in the Marketing, Sales and Service functions. The main CRM components include contact and account management, sales order handling and fulfilment, customer service and support, and customer retention and loyalty programmes.

CRM systems are aimed at helping organizations to acquire and retain as well as sell to profitable customers. Traditionally organizations had different departments dealing with customers in isolation, which created difficulties for the customers and the organization. For example if the customer wanted to place an order they had to contact function A while if they wanted to request service they were required to contact function B. CRM systems try to co- ordinate the efforts of Marketing, Sales and Service staff by ensuring all relevant customer activities, and transactions are recorded in a commonly accessible manner

Business Value of Customer Relationship Management Systems

Companies with effective customer relationship management systems can realise many benefits, including increased customer satisfaction, reduced direct marketing costs, more effective marketing, and lower costs for customer acquisition and retention. Information from CRM systems can be used to increase sales revenue by identifying the most profitable customers and segments for focused marketing, cross-selling, and up-selling.

2.MARKETING RESEARCH

Marketing research involves collecting, organising, analysing and communicating information that can be used in order to make an informed marketing decision. Performing market research will complement your marketing mix strategy as it enables you to make educated decisions regarding selecting markets, your image or branding and products or services.

key steps in Marketing Research

Define the Problem: In this stage you need to identify the actual problems that are relating to the apparent symptoms. What information is needed in order to solve the problem

For example, poor sales within a business are not the problem, they are the symptom of a larger issue such as a weak marketing strategy.

Further business problems may include:

- Who are your target customers?
- What method could be implemented to reach these customers?
- Who are your customers and what advantages and disadvantages do they have over your business?
- What size is the consumer market you are trying to engage?

Collect the Data: There are two types of market research that can be performed:

- Primary research - involves collecting information from sources directly by conducting interviews and surveys, and by talking to customers and established businesses.

- Secondary research - involves collecting information from sources where the primary research has already been conducted. Such information includes industry statistics, market research reports, newspaper articles, etc.

Collection methods and techniques

- Qualitative research is where you seek an understanding of why things are a certain way. For example, a researcher may stop a shopper and ask them why they bought a particular product or brand.
- Quantitative research refers to measuring market phenomena in a numerical sense, such as when a bank asks consumers to rate their service on a scale of one to ten.

Analyze and interpret the data

- You must attach meaning to the data you have collected during your market research to make sense of it and to develop alternative solutions that could potentially solve your business problem.
- You should determine how the knowledge you have gained through researching your market can be applied and used to develop effective business strategies.

Reach a conclusion

With the alternatives you have developed to solve your problem in mind, perform a cost- benefit analysis of each alternative keeping in mind the potentially limited resources available to your business.

You may also need to perform further investigation into each alternative solution to arrive at the best decision for your business in regards to meeting consumer demands.

Implement your research

Put your final solution into practice. Without completing this step your research could potentially have been a waste of your time and resources.

Need for Marketing Research

- To undertake marketing effectively
- Changes in technology
- Changes in consumer tastes
- Market demand
- Changes in the product ranges of competitors
- Changes in economic conditions
- Distribution channels

Purpose of Marketing Research

- Gain a more detailed understanding of consumers' needs: – e.g., views on products' prices, packaging, recent advertising campaigns
- Reduce the risk of product/business failure: – there is no guarantee that any new idea will be a commercial success – Can help to achieve commercial success
- Forecast future trends: – it can also be used to anticipate future customer needs

Types of marketing research
Marketing research techniques come in many forms, including:

Ad Tracking – periodic or continuous in-market research to monitor a brand's performance using measures such as brand awareness, brand preference, and product usage. (Young, 2005)
Advertising Research – used to predict copy testing or track the efficacy of advertisements for any medium, measured by the ad's ability to get attention (measured with AttentionTracking), communicate the message, build the brand's image, and motivate the consumer to purchase the product or service. (Young, 2005)
Brand equity research - how favorably do consumers view the brand? ν Brand association research - what do consumers associate with the brand? ν Brand attribute research - what are the key traits that describe the brand promise? ν Brand name testing - what do consumers feel about the names of the products?
Commercial eye tracking research - examine advertisements, package designs, websites, etc. by analyzing visual behavior of the consumer ν Concept testing - to test the acceptance of a concept by target consumers.
Coolhunting - to make observations and predictions in changes of new or existing cultural trends in areas such as fashion, music, films, television, youth culture and lifestyle.
Buyer decision making process research - to determine what motivates people to buy and what decision-making process they use; over the last decade, Neuromarketing emerged from the convergence of neuroscience and marketing, aiming to understand consumer decision making process.

3. MARKETING COMMUNICATIONS

Marketing communication mix

In the era of mass communications and emerging mobile technologies, an organization must build an adequate mix of marketing communications, in order not to drown in a sea of information. This will be made in a relation with the good interaction of objects and forces, influencing the management outside the company, and marketer's ability to establish and maintain successful corporations with target customers. Marketing communications of an organization is a complex of measures, techniques and methods by which information about goods, services or brand of the company reaches its users.

Philip Kotler and Kevin Lane Keller define marketing communications as "the means by which firms attempt to inform, persuade and remind their customers -directly and indirectly -of products and brands they sell."
The elements of the mix of marketing communication are the following:

Advertisement

Advertising performs multiple functions, the main ones are: inform, persuade, reminder create additional utility impact on people's perceptions. As a result of advertising certain products and brands look more upscale and stylish than competitors. Advertising adds value to the purchase of expensive and risky products. It supports other promotional resources and can attract a large and geographically dispersed market.The costs to reach one member of the target audience are lower as compared with personal sales. Advertisers have a number of alternative means of advertising and can exercise control over the content of the advertising message, its design, time and place of the broadcast. Advertising formed a certain degree of awareness and knowledge about the existence of a product and brand that makes possible the application of modern forms of sale, such as self-service.

Personal Selling

Personal sales are expressed in a personal presentation of ideas and products to the client, in which the seller persuades and helps the buyer decide to purchase. Personal sales represent two-way communication between seller and buyer in order to effect the purchase by targeting long-term relationships with retailers and consumers -SRM. Personal selling is rarely used as a single agent for promotion. They support other means of the promotional mix while being supported by them. Personal selling allows modification of the message as per the client, control over the audience and achieved delivery of information about consumer behavior and market trends.

Sales promotion

Encouraging sales techniques impact to the buyer through personal communication and a system of market tools to induce or accelerate the purchase of short-term effect. It includes marketing activities adding value to products for a limited period of time in order to stimulate consumer purchases and effectiveness of intermediaries. Stimulating sales are divided into two main categories: consumer -and business-oriented. Sales promotion is a complex of actions with a single or short-term to encourage consumers and commercial firms by offering them additional incentives to increase sales.It includes activities promoting sales by providing additional incentives for purchase -price reduction, premiums, samples, coupons and more. These incentives are a supplement, but not substitute for the basic benefits that the buyer gets when buy the product. So while the ad gives the reason to buy a good, stimulating sales added incentives for this in order to increase and accelerate sales, ie proceed with immediate effect.

Sales promotion consumer oriented, aims to stimulate consumers to immediate purchase. The funds are distributed by producers or traders. These are price deals, coupons, samples, sweepstakes, contests, discounts, premiums, souvenirs, loyalty programs, samples, demonstrations and more. Stimulating sales oriented traders aims at promoting commercial intermediaries ie wholesalers, retailers, distributors and their sales staff to buy more to display and sell a better products company. For this purpose use such as posters, displays, displays, competitions and lotteries, trade shows, cash bonuses and more. This approach stimulates the active involvement of sales representatives, has a high degree of flexibility, creates interest and helps test new products, and support continued the impact of advertising.

Public relations

Public relations / PR / are an interactive system using one or more communication devices for notice measurable effects. They are relevant to all activities in the organization and cover all communications. PR are not focus on the product, they are focused on the whole company. Their main objectives are to achieve understanding with the audience and influence public opinion. “PR is a distinctive management function which helps to establish and maintain a two-tier communication, understanding, acceptance and cooperation between an organization and its users. Includes management of problems and results; It helps management to be constantly informed and responsive to public opinion; defines and emphasizes the managerial responsibility for serving the public interest; It helps management is always aware of the situation and effectively use change to serve as an early warning system.

Direct marketing

One of the fastest growing sectors in the global economy is direct marketing, by which organizations communicate directly with their target customers to generate reaction and/or transaction. “Traditionally, direct marketing is not considered as part of the promotional mix, but it has become an integral part of the integrated marketing communications of many organizations and often includes separate targets, budgets, strategies. It is not just direct mail or electronic catalog”. The development of technology and the use of the Internet make possible to apply new and attractive forms of direct marketing that contain the potential for branding and generating sales. Such forms are web marketing, email marketing; direct mail, web seminars, telemarketing promotions, sales channels, direct sales, advertising flyers, catalogs and more.

1.3 THE USE OF THE INTERNET IN MARKETING

1. INFORMATION SYSTEMS IN THE SALES AND MARKETING FUNCTION

Sales Order Processing Systems

The sales area is concerned with selling products to customers. Sales order processing systems are used to capture and process customer orders and produce data needed for sales analysis and inventory control.

Before an order is accepted from a customer the Sales area must check with Stores that the goods requested are in stock and with finance that the customer has a good credit status. If both checks are positive the order is taken and confirmation is sent to the customer

Sales order processing systems can also be used to track the status of customer orders until they are delivered. Computer-based sales order processing systems provide a fast, accurate and efficient method of recording and processing customer orders and sales transactions. They also provide inventory control systems with information on accepted orders so they can be filled as quickly as possible.

Staff using a computerised sale order processing system can also access to information held by other functions. Sales staff can check stock levels and customer account information from their computer screen. Sales order processing systems enable the status of an order to be checked and also enable reporting to be carried out.

Point of Sales Systems (POS)

Electronic point of sale terminal incorporates a cash register and a terminal connected to a computer. As well as performing the normal functions of a cash register, the point of sales terminal collects data relevant to each sale and sends this data to the shops computer system where it can be used for sales analysis and stock control.

Most point of sale terminals also incorporate a scanning device to read the bar codes of the grocery items. As well as improving the efficiency of the checkout operation, the data collected by the bar code reader enable a detailed receipt to be printed for each customer and sales and management information to be collected.

Most retail POS systems do much more than just “point of sale” tasks. Many POS systems can include fully integrated accounting, inventory management, forecasting and customer relation management (CRM),

Point of sale systems are used in supermarkets, restaurants, and hotels, as well as most types of retail establishment.

Sales Force Automation
Increasingly computers and the internet are providing the basis for sales force automation. In many companies the sales force are being supplied with notebook computers, WEB browsers and sales contact management software that connects them to marketing websites on the Internet and their company's intranet. This not only increases the productivity of the salespeople, but dramatically speeds up the capture and analysis of sales data from the field to marketing managers at the company headquarters. It allows marketing and sales management to improve the delivery of information and support to their sales people.

For example, sales people can use their PCs to record sales data as they make their calls on customers and prospects during the day. Then each evening the sales representative in the field can connect their computer remotely through the internet to the company's network. They can then upload information on sales orders, sales calls, and other sales statistics, as well as send e-mail messages and access sales support information. In return the network can down load product data, prospect lists on good sales prospects, and e-mail messages.

Marketing Databases
Many organizations maintain files or databases specifically for information generation purposes. For example an organization may conduct or commission market research in order to create a marketing database containing information on existing customers and prospective customers.

Data Warehousing
A data warehouse can be defined as any centralised data repository, which can be queried for business benefit.

A data warehouse is a database that stores current and historical data of potential interest to managers throughout the company. This data originates in many core operational systems and external sources each with different data models. The data from the different applications are copied into the warehouse database as often as needed – hourly, daily, weekly, and monthly. The data are standardised into a common data model(s) and consolidated so that they can be used across the enterprise for management analysis and decision-making. The data are available for anyone to access as needed but cannot be altered. Data warehouses are specifically designed to allow the warehouse user to:

- Extract archived operational data
- Overcome inconsistencies between different legacy data formats
- Integrate data from throughout an enterprise, regardless of location, format, or communication requirements
- Incorporate additional or expert information

The data warehouse concept is shown in the figure 10.6 above. Companies can build enterprise-wide warehouses where a central data warehouse serves the entire organization, or they can create smaller, decentralised warehouses called **data marts**.

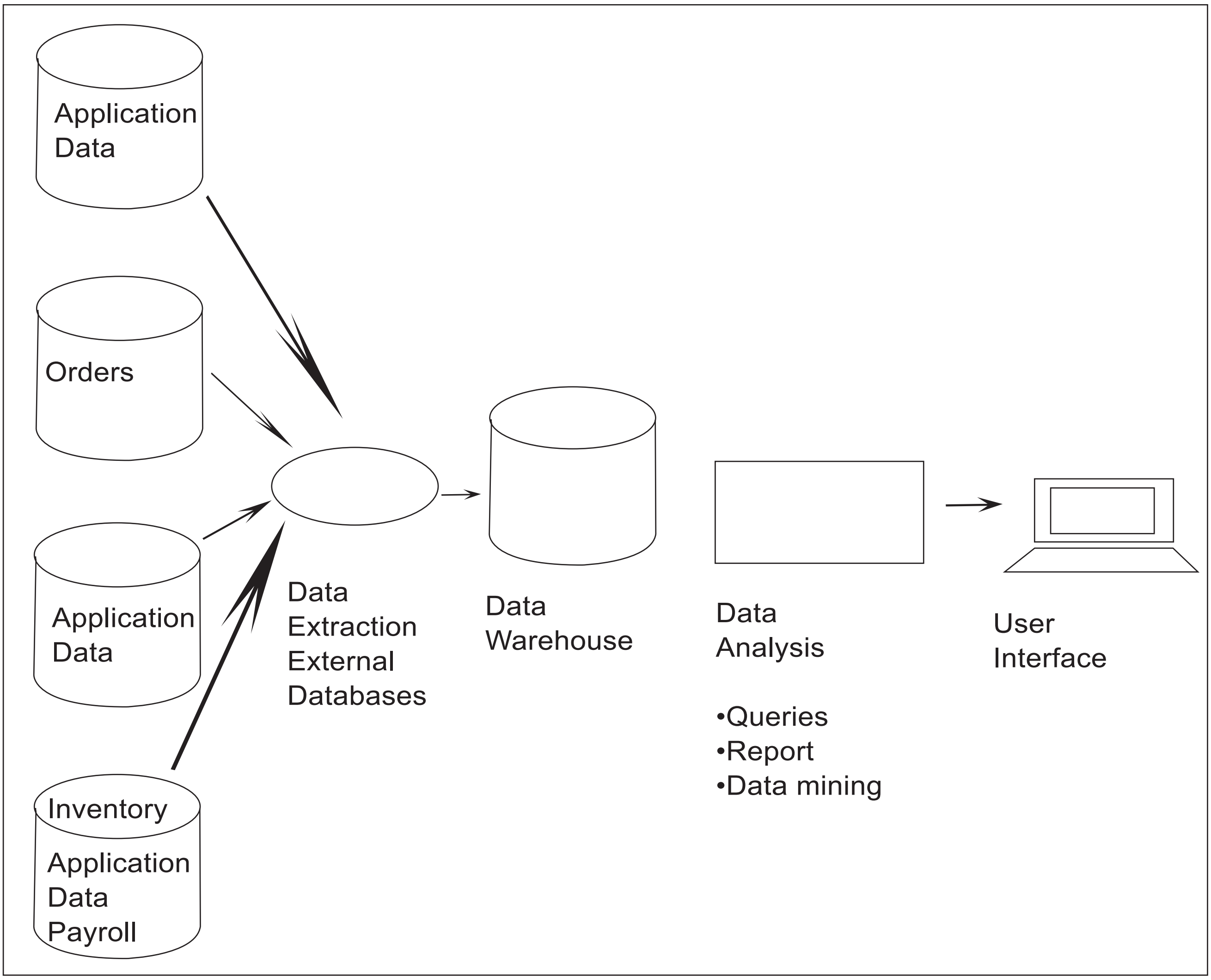


Figure 10.6: Components of a Data Warehouse

Data Mining

Data mining is the analysis of data for relationships that have not previously been discovered. Data mining results include:

- Associations, or when one event can be correlated to another event (those who purchase a shirt may also buy a tie a certain percentage of the time)
- Sequences, or one event leading to another later event (a purchase of a camera followed by a purchase of a camera case)
- Classification, or the recognition of patterns and a resulting new organization of data (for example, profiles of customers who make purchases)
- Clustering, or finding and visualising groups of facts not previously known
- Forecasting, or simply discovering patterns in the data that can lead to predictions about the future

2. IMPACT OF E-COMMERCE

The Business Value of the Internet

Most companies are building commercial sites on the Web to achieve business value. The business value of the internet includes:

- Generate new revenue from online sales.
- Reduce costs through online sales and customer support.
- Attract new customers via Web marketing and advertising, and online sales.
- Increase the loyalty of existing customers via improved Web-based customer service and support.
- Develop new Web-based markets and distribution channels for existing products.
- Develop new information-based products that can be accessed over the Web.

Electronic Commerce (e-commerce)

Electronic commerce is more than just buying and selling products online. Instead, it encompasses the entire online process of developing, marketing, selling, delivering, servicing, and paying for products and services purchased over the internet by customers.

Electronic commerce can include:

- Interactive marketing, ordering, payment, and customer support processes at e-commerce sites on the Web
- Access to inventory databases by customers and suppliers
- Access to customer relationship management systems by sales and customer service representatives

Companies involved in e-commerce as either buyers or sellers rely on Internet-based technologies and e-commerce applications and services to accomplish marketing, discovery, transaction processing, and product and customer service processes.

The Internet and other networks provide vital electronic links between the components of a business and its customers, suppliers, and other business partners. This allows companies to engage in three main categories of electronic commerce applications:

- Business-to-Consumer (B2C) e-Commerce
- Business-to-Business (B2B) e-Commerce
- Consumer-to-Consumer (C2C) e-Commerce

Business-to-Consumer (B2C) e-Commerce

B2C e-commerce involves retailing products and services to individual shoppers. In this form of e-commerce the sellers are organizations and the buyers are individual consumers. The Internet provides companies with new channels of communications and interaction with customers that can be more cost-effective than traditional retailing. Companies can offer:

- E-commerce Web sites that provide virtual storefronts and multimedia catalogues
- Interactive order processing
- Secure electronic payment systems
- Online customer support

Some examples of successful business to consumer e-commerce Web sites are Dell.com who sell computer equipment directly to consumers and Amazon.com who sell books, eBooks, DVDs, cameras, computers, and a vast range of other items.

Business-to-Business (B2B) e-Commerce
Business-to-business electronic commerce is the wholesale and supply side of the commercial process, where businesses buy and sell goods and services with other businesses.

Many businesses are integrating their Web-based e-commerce systems with supply chain management, customer relationship management, and other information systems. This ensures that all electronic commerce activities are integrated with their business processes.

Consumer-to-Consumer (C2C) e-Commerce
In this category of e-commerce, consumers sell directly to other consumers. For example, e- Bay the giant online auctions site enables consumers to sell to other consumers by the auctioning off of items to the highest bidder.

Benefits and Limitations of E-Commerce
Benefits of E-Commerce

Both organizations and consumers can benefit from e-commerce.

BENEFITS TO ORGANIZATIONS
benefits to the organization include:

- Global reach
- Being able to source cheaper supplies
- Reduced Cost of doing business
- Speeds up the flow of goods
- Improved customer service
- Enable small businesses compete against large companies

BENEFITS TO CONSUMERS
The benefits to the consumer include:

- Providing less expensive products and services by allowing customers to do quick online comparisons
- Enabling customers to shop or make other transactions 24 hours a day
- Giving customers more choices in terms of products and suppliers
- Delivering relevant and detailed information quickly
- Enabling consumers to get customised products such as PCs

Limitations of E-Commerce
The limitations of e-commerce include:

- Lack of universally accepted standards for quality, security and reliability
- Difficulty in integrating e-commerce software with some existing applications

- Unresolved legal issues related to fraud and buyer and seller protection
- Customer resistance to changing from real to virtual stores
- Perception that e-Commerce is expensive and unsecured
- Increasing incidence of internet fraud and other crimes

MARKETING ETHICS

Marketing Ethics: Marketing ethics is an area that deals with the moral principles behind marketing. Ethics in marketing applies to different spheres such as in product, pricing, Placing (Distribution), promotion & advertising etc...

Why we need Ethics in Marketing?

There are many reasons but will notify some:

- When an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services.
- To create Values or trust with key stakeholders
- To build good image about the organization in the minds of customer, employees, shareholders and the society.

Ethical Issues in Marketing

We discuss Marketing issues by using 4P'S of marketing: product & packaging, price, placing (distribution), and promotion (advertising & branding)

PRODUCT AND PACKAGING

Product: Consumer safety, Product liability and reliability, and Designing for special needs
Packaging: Label information, Packaging graphics, Packaging safety, and Environmental implication of packaging

PRICE

Bid rigging, Supra competitive pricing, Price fixing, and Price skimming

PLACING (DISTRIBUTION)

- Product distribution (or place) is one of the four elements of the Marketing MIX.
- Distribution of product or service is transporting them from manufacture to stockiest, wholesalers, retailer and then to consumers.

Unethical Practices

- Many retailers sell products that have crossed expiry date is unethical.
- Exerting influence to cause vendors to reduce display space for competitors' products is unethical. Promising shipment when knowing delivery is not possible by the promised date is also unethical.
- Paying vendors to carry a firm's product rather than one of its competitors are also unethical. Most drug stores would give too many drugs without prescription from a qualified doctor are also unethical.
- Products are moved in unsafe vehicles, are also unethical.

PROMOTION (ADVERTISING &BRANDING)

Promotion is one of the four elements of marketing mix (product, price, promotion, place). It is the communication link between sellers and buyers for the purpose of influencing, informing, or persuading a potential buyer's purchasing decision.

- To present information to consumers as well as others
- To increase demand
- To differentiate a product

Ethical Issues in Advertising

- Puffery (Nothing to support the fact.)
- Advertising to Children
- Promoting Unhealthy Products
- Subliminal Advertising
- Deceptive Advertising

THE ELEMENTS OF THE MARKETING MIX

Any product you purchase today is made available to you through a marketing process that included 4 vital ingredients, and is based on a quality and customer focused foundation. The producer designs a **Product** that satisfies customers needs, sets a competitive **Price**, has the product in a **Place** that is convenient for the consumers to buy (or consume) and **Promotes** it. These four factors are known as the **Marketing Mix** or 4 Ps. See Figure 10.1.

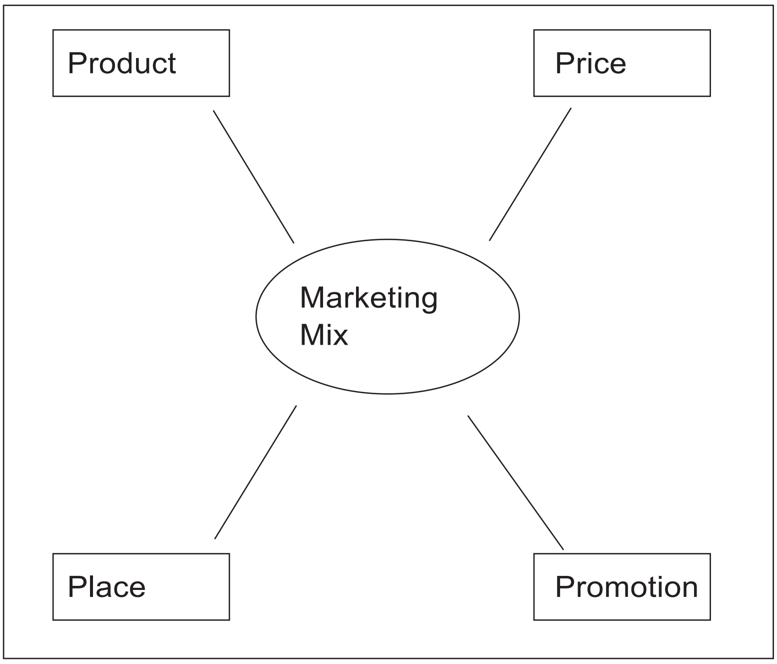


Figure 10.1: The Marketing Mix

1. PRODUCT

Designing products of a high quality and high perceived value-added is a vital part of any business. Marketers must communicate with consumers and constantly adapt the products to meet changing market demands.

Product Mix, Lines and Offers
Businesses will normally have a range of products to satisfy different segments of the market. A **Product Mix** is the combination of products offered by a business.

A **Product Line** is a group of products that are physically similar or are intended for a similar market

A **Product Offer** consists of all the tangible and intangible benefits consumers evaluate when deciding whether or not to buy a product. In addition to the product itself, this evaluation may also include the products price, packaging, shop surroundings, the image created by advertising, the reputation of the producer, the brand name and the level of customer service.

Product Differentiation
Product Differentiation is an attempt to create the impression in the mind of the consumer that a given product is distinctive from others.

Consumers will perceive the importance of various products and services according to their needs. It is important therefore that a business is careful when selecting the target audience for its marketing efforts.

Consumer Goods and Services
The strategy that a marketer will adopt will vary according to the type of end market. Generally there are two types of end market, namely Consumer Markets and Industrial Markets.

Within consumers markets there are three categories of goods and services based on purchase habits and buyer preferences:

- **Convenience Goods and Services:** These relate to products that a consumer wants to purchase regularly and with a minimum of effort. Location, brand awareness and image are very important. Examples include confectionery, newspapers and cigarettes.
- **Shopping Goods and Services:** These relate to products that the consumer buys only after comparing value and price from a variety of goods. Marketers emphasise price and quality differences. Examples include clothing, footwear, electrical appliances and Personal Computers.
- **Speciality Goods and Services:** These relate to products that have a special attraction to consumers, who are willing to go out of their way to obtain them. Examples include cars, sports and leisure facilities, jewellery and holidays.

Industrial Goods and Services
Industrial goods and services are products that are used as inputs to other products. Within industrial markets there are generally three categories:

- **Materials and Parts:** These relate to finished products that are used as inputs in the production process of other products. Examples include engines in cars and hard disks in computers.
- **Capital Equipment:** This relates to products required to produce or manage the production of other products. Equipment includes manufacturing equipment, delivery vans etc.
- **Supplies and Services:** These relate to products that are used to support the production of finished goods. Examples include office stationary, insurance and accounting services.

The Product Life Cycle

Every product has a life cycle, from introduction to growth to maturity and finally decline (figure 10.2). The length of a product life cycle varies from product to product. The concept of the Product Life Cycle can be used to assist managers to develop appropriate strategies for managing products depending on the stage that the product is at in its development. As the product moves through its cycle, the strategies relating to competition, promotion, place/distribution, pricing and market information must be periodically evaluated and possibly changed.

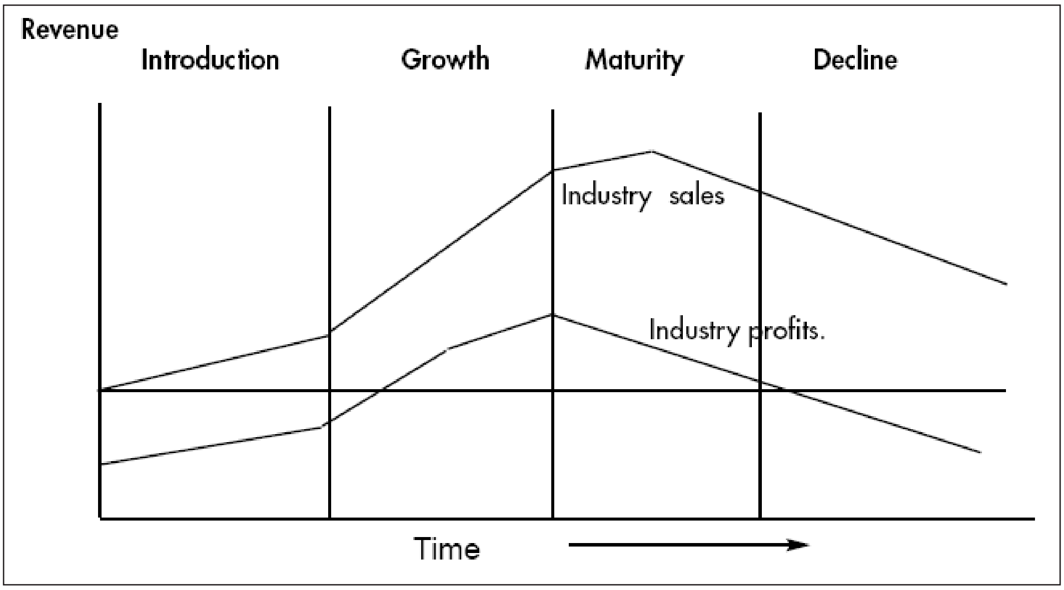


Figure 10.2: The four stages of the Product Life Cycle

INTRODUCTION

The introduction stage is the most risky and costly. The public must be informed about the product through a promotional campaign, and perhaps given incentives to buy the product. Costs during this phase include research and development, market research, and product launch costs. The level of competition would generally be low at this stage.

GROWTH

As the product becomes known, sales will increase and consequently profits. Competition may emerge as competitors are attracted by the growth of sales. This is a critical stage for the product's survival because competition will increase greatly and will affect the product's life expectancy. Aggressive promotional pricing, including price cuts is typical at this stage. The goal is to establish the products position and to strengthen it by encouraging brand loyalty. During this stage, the product offerings may have to be expanded, and segmentation may be used to achieve greater penetration. Gaps in the marketing channels should be filled during the growth stage, and the company may move from an exclusive to a more intensive distribution. Later on, advertising expenditure may be lowered slightly from the high levels of the introductory stage, but still needs to be substantial.

Maturity

Maturity sees the sales curve peak and should level off before it starts to decline. For those products with a large market share this is generally they most profitable stage. There will be severe competition, with many brands in the market. Competitors emphasise improvements and differences in their product. Many of the weaker competitors are likely to be squeezed out at this point. For those remaining, they must make fresh promotional and distribution efforts to ensure brand visibility is maintained. It will often require modification to theproduct and marketing mix. Product modification covers quality, enhanced functionality and modifications to the appearance and style of the product.

DECLINE

Demand falls as the product becomes obsolete. The choices for the company are to phase out the product or drop it immediately. If the company has continued to develop products there will be a new product ready to replace it.

The produce life cycle has implications for all firms. No business can afford to stand still even if its position is the market is strong at present. Unless a company continues to improve upon its existing products and plans for their replacement, that company will eventually be overtaken by its competitors. Consequently, companies should have many different products at various stages of the life cycle, thus ensuring the continued growth of the company.

Branding

A **brand** is defined as a name, symbol or design that identifies the goods or services of one seller and distinguishes them from those of competitors.

A **brand name** is defined as the part of the brand consisting of a word, letter, or group of words and letters comprising a name that differentiates the goods or services of a seller from those of competitors. Brand names of goods become known to consumers through advertising. Some well-known brands names include Apple, Coco Cola, and Microsoft.

The main advantages of branding are:

- Helps product identification
- It can be used to communicate benefits to the consumers
- It gives the consumer reassurance that they know what they are buying
- Helps create loyalty, defends against competition,
- It can help positioning a product in the marketplace
- IT can enable premium pricing and can increases power over retailer
- Facilitates advertising and promotion

A **trademark** is a brand that has been given exclusive legal protection for both the brand name and graphic design.

Packaging

An important aspect of the brand image of a product is the packaging that is used. The three functions of packaging are:

- Protection of the product,
- The promotional opportunities that the packaging itself offers,
- The opportunities for innovation and product improvements/ modification.

PRICE

The main issues around price include how price can be used as a **competitive tool**, what are the **determinants of price** and what **pricing methods** can be used.

Price as a Competitive Tool
Price is a critical element of the marketing mix as it is the only element that produces revenue. Many firms base their pricing policies on cost factors alone and neglect to take account of dynamics of the market place where a product might be successful at a particular price but not at another. Also firms that base their prices on the cost of manufacture often neglect the cost of things such as after sale service. Price can be used as a competitive tool in the context of an overall market strategy

Determinants of Price
The price of a product is influenced by both external and internal factors.

INTERNAL FACTORS

- **The Cost of Production:** The costs of producing a product or service set the floor price for a product or service. An organization must recover the costs if it wants to stay in business in the long term.
- **The Organization's Objectives:** The objectives of the organization will also influence the price charged. For example the organization may charge a high price to maximise profits, or they may decide to charge a low price initially to gain market share.
- **Positioning Strategy:** The Company may be pursuing a low price strategy or a differentiation strategy where it will charge a high price for perceived quality such as BMW and Rolex.

EXTERNAL FACTORS

- **The Customer:** The customer effectively determines the highest price that can be charged for the product. Companies should carry out market research to establish the disposable income of target customers and how much they are willing to pay for a particular product or service
- **Competition:** The level of competition in the market place will impact the level of prices. In a highly competitive market place, prices will tend to be lower but in a market with few competitors an organization can charge a higher price.
- **Economic conditions**: If the economy of a country is booming, then prices will tend to be higher while in a recession prices will generally fall.
- **Government Regulations and Control:** Governments actions can affect prices in a number of ways. In some countries the prices charges for utilities such as electricity and public transport are subject to government regulations. Governments can also affect the prices charged for products and services by increasing taxes and duties.

Pricing Methods
Depending on the firms marketing objectives there are several different pricing strategies that can be adopted including:

- **Cost plus pricing:** This is the most common approach to pricing and is based on product cost plus a variable mark up.
- **Price Skimming:** This involves setting a higher price at the early stages of the product life cycle.
- **Price Penetration:** This involves setting the prices at a very competitive level to increase market share.

- **Price Bundling:** This involves grouping together two or more products and offering them at a price less than the sum of their individual prices. This may be used to stimulate sales in a product that is selling poorly.
- **Target pricing:** The price of a product is determined on the basis of a target profit margin.
- **Perceived values pricing:** This involves pricing the product based on the value or performance it offers the buyer and may involve a premium on the price.
- **Competition oriented pricing:** There the price of the product is determined with reference to what the competition is charging.

PROMOTION

The third P in the marketing mix is Promotion, which relates to all communications with markets and consumers, including promotional activities, selling and sales, and market research. There are a number of different methods of promotion which include:

- Advertising
- Sales Promotion
- Public Relations
- Personal Selling
- Direct Marketing

Advertising

This may be defined as the communication of information about a product or service to a particular audience. The main aims of advertising include:

- To increase the sales of a firm's products and therefore increase its profits
- To provide information about products and their uses, including technical information
- To keep the brand name in the minds of consumers. In some advertisements no particular product is advertised, just the brand name is mentioned
- To project a good image of the firm to the public. Some advertisements by banks insurance companies etc. often have this aim in mind.

CHOICE OF MEDIA

The advertising media selected by a firm will depend mainly on the following factors:

- The type of product or service to be advertised
- The target market for the product
- The amount of money that is available for advertising
- The method of presentation needed.
- The competitors choice of media
- Geographic coverage

The media available to the organization for advertising purposes include:

- Television
- Radio
- Magazines
- Newspapers
- Internet

TELEVISION
This is a very effective medium of advertising goods and services that have a broad market appeal.
The advantages of television as an advertising medium include:

- It can reach a large audience with a low cost per contact
- It offers creative opportunity
- It enables segmentation of the market – for example a company selling sports gear could run their adds during a sports program

The disadvantages of television as an advertising medium include:

- There are too many adds and is very easy for consumers to change channel
- The amount of time is very short so recall by consumers can be low
- Both the production and broadcast costs are very high

RADIO
Radio is a very widely used medium for advertising and can be effective, particularly in the morning an during the earlier parts of the day when it is not competing directly with television
The advantages of radio as an advertising medium include:

- The cost is lower than TV – also the cost of production is lower
- Radio supports high levels of segmentation,

The disadvantages of radio as an advertising medium include:

- Short exposure time, as advertisements generally have a very short duration
- Low attention span of most listeners

NEWSPAPERS
Although newspaper readership has declined in recent years, newspapers are still an important advertising medium.
The advantages of newspaper as an advertising medium include:

- Possible to advertise locally (local paper) and can also include coupons and leaflets
- Newspapers are a low cost medium and will generally have high credibility particularly if the ads appear in a reputable paper.

The disadvantages of newspaper as an advertising medium include:

- Major clutter as there are so many papers – also the life span of a newspaper is usually only a single day
- Newspapers are normally printed on low-grade paper which results in poor quality colour pictures
- As the numbers buying papers is declining the audience for newspaper advertisements is declining

MAGAZINES
Magazine advertisements are usually targeted at a particular market - the particular grouping who read the magazines. For example the advertisements in a farmers magazine would generally be targeted at farmers, whereas the advertisements in a computer magazine would be geared toward computer users.

The advantages of magazines as an advertising medium include:

- Magazines offer segmentation possibilities – if you are advertising computer hard disks then you should advertise in a computer magazine
- Magazines have a longer life span and are generally printed on higher quality paper than newspapers

The disadvantages of magazines as an advertising medium include:

- They are higher cost than newspaper but also suffer from high clutter and like newspapers magazine sales are dropping

THE INTERNET
The internet is the fastest growing advertising medium. The different methods of internet advertising include:

- Corporate websites
- Banner ads
- Ad-words
- Social networking sites
- Email

The advantages of the internet as an advertising medium include:

- Very high reach – in fact it is global reach
- Segmentation and targeting are possible, particularly when using adwords
- It is possible to evaluate the effectiveness of a add (measuring how many people click on it
- The internet offers interactivity in that the consumer can click on the advert and it automatically links to the firm's website. The consumer can choose to view pictures of the product, read specification details or watch a video of the product. They can also enter their email address to receive additional communications
- It is generally lower cost that other media

The disadvantages of the internet as an advertising medium include:

- A very high level of clutter with billions of web pages
- The internet excludes some people who don't have access. This makes it hard to target some groups, in particular older people.
- There are security issues associated with the internet

Sales Promotion
Sales promotions are short term methods used by organizations to increase sales of a product. The main sale promotion methods uses are as follows:

- **Price Reductions** – such 10% of or 20% extra free

- **Competitions and Draws – customers** can fill out a form on the packaging to enter a draw
- **Free Samples –** for example offering a free sample of hair conditioner with a purchase of shampoo
- **Bundling of Products -** where two products are bundled and sold together
- **Vouchers and coupons –** these can be used to purchase more of the product at a lower price.

Publicity and Public Relations
Publicity is non personal communication about an organization and its products and services that is generally not paid for. Public Relations (PR) is the management of internal and external communication of an organization to create and maintain a positive image for the company.

Publicity events include:

- Press releases which are aimed at generating interest in the press
- Publicity 'stunts'
- Photo opportunities
- Speeches and personal appearances by senior management
- Giving interview on radio and television
- Writing newspaper articles and books
- Blogs and social media – these enable the organization to engage in two way communications

The main objective of public relations is to create and maintain a good impression of the company and its products in the minds of the public.

Personal Selling
Personal Selling involves informing customers and persuading them to purchase products through personal communications in an exchange situation. It also involves promotion of products, plus searching out prospects and providing follow-up services.

Personal selling has advantages and limitations when compared to advertising. Advertising is generally communications aimed at a relatively large target audience, whereas personal selling offers more specific communication aimed at one person or several people. Reaching one person through personal selling costs considerably more than doing so through advertising, but personal selling often has a greater impact on customers. Personal selling also provides immediate feedback, which allows the marketers to adjust the message to improve communication.

Direct Marketing
This involves selling directly to the end-customer. Direct marketing enable a marketer to deal directly with target customers. Methods of direct marketing include: catalogues, mailings, telemarketing, the Internet, TV shopping, etc. Dell, Ryanair and Amazon are examples of companies that employ direct marketing.

Sales Department

The sales department has responsibility for selling the company's products and services. It receives support from all the other departments involved in marketing. The sales departments will work closely with the other departments such as production, and finance and with other groups with the sales and marketing department such as marketing and market research. The head of the sales department is normally the sales manager.

SALES MANAGER

The main duties of the sales manager are the following:

- Implementing company policy in the sales department
- Organising the sales force and setting sales targets
- Preparing sales forecasts and budgets
- Leading and motivating the sales staff
- The sales manager is responsible for evaluation and control of the sales force

Market Research

Market research is used by marketers to improve the effectiveness of all other marketing efforts. It normally involves direct communication with markets and consumers. Market research is defined as the systematic gathering, recording and analysis of data about problems relating to the marketing of goods and services. The two main sources of data are primary data and secondary data. Primary data is information resulting from original research concerning a specific problem. Secondary data is already published research information from journals, trade associations, government bodies, libraries etc, which was collected for a separate purpose.

PLACE

A key aspect of the marketing process is the ability to physically get the product from where it is produced to a place where the consumer can view, purchase or consume it most conveniently. This involves setting up the appropriate distribution channels. There are a number of distribution functions; transportation, storage, buying selling etc... The key issues in distribution from a marketing mix perspective are as follows:

- Utility and Marketing Intermediaries
- Physical Distribution and Logistics
- Channels of Distribution

Utility and Marketing Intermediaries

- **Utility** refers to the value of want satisfying ability that is added to goods or services by organization through making them more useful or accessible to consumers.
- **Form utility** is value added to a product mainly by the producer to make it more useful. Other types of utility are added by the Marketing Intermediaries.
- **Marketing Intermediaries** are organizations that assist in the movement of goods and services from producers to consumer.
- **Time utility** is value added to products by retailers who make them available as they are needed.
- **Place utility** is value added to products by intermediaries who distribute them to where they are wanted.

- **Possession utility** is the value that intermediaries add to products by enabling the transfer of ownership from one party to another.
- **Information utility** is the value added to products by opening two-way flow of information between marketing participants

Physical Distribution and Logistics
Physical Distribution refers to the movement and storage of goods and services from producers to consumer. A business has to handle both inward and outward distribution.

No physical distribution service can simultaneously maximise customer service and minimise distribution cost. The task of the distribution manager is to balance the cost of physical distribution with the provision of a quality service.

The criteria when choosing a mode of transport include speed, frequency, dependability, capacity and availability. Shippers are increasingly combining two or more modes of transportation thanks to containerisation.

Channels of Distribution
Channels of distribution refer to the Marketing Intermediaries such as wholesalers, retailers and agents who together transport and store goods in the path (channel) from producer to consumer.

Wholesalers are marketing intermediaries that sell to organizations and individuals for resale and not to final consumers.

Retailers are marketing intermediaries that sell to consumers and include department stores, supermarkets and convenience stores.

The three normal channels of distribution are shown in figure 10.3.

- **Channel 1:** This is referred to as Direct Marketing and Non Store Retailing. It is a fast growing channel of distribution and includes telemarketing, Internet marketing, direct mail marketing, vending machines, door to door sales, mail order retailing, and home shopping networks.
- **Channel 2:** This is the longest and most indirect distribution channel. It is used with most consumer goods. The manufacturer sells the goods to the wholesaler, who in turn sells to the retailer. The consumer purchases the goods from the retailer.
- **Channel 3:** This is an indirect channel of distribution. For example a large hardware store who buys timber directly from the sawmill and sells directly to the consumer or a large supermarket chain who buy directly from the manufacturer.

Channel 1	Channel 2	Channel 3
Manufacturer ¦ ¦ ¦ ¦	Manufacturer ¦ Wholesaler ¦ Retailer	Manufacturer ¦ ¦ ¦ Retailer

¦ Consumer	¦ Consumer	¦ Consumer

Figure 10.3: Channels of Distribution

The Seven Ps of Service Management Strategy

Earlier in this chapter the four Ps of the marketing mix (product, price, place and promotion) were discussed. However, when it comes to marketing services these four parameters were found to be insufficient. As a result three additional "Ps" were added, namely **Physical Evidence**, **Process** and **Participants**. The combined 7 Ps called the **extended marketing mix** or **service mix** are as follows:

- Product
- Price
- Place
- Promotion
- Physical Evidence
- Process
- Participants

As a result, three additional "Ps" were added and are discussed below:

Physical Evidence

The physical evidence relates to how the facilities are designed and managed. The key management activities in this instance are as follows:

- The interior /exterior facility layout with regard to theme, décor, lights, signage. Service encounter, cleanliness, etc.
- Employee appearance and hygiene.
- Equipment/automation convenience reliability, ease of use, attractiveness etc.
- Adequate exterior capacity such as parking facilities etc.
- Visible professional credibility e.g. licences etc.

Process

Process refers to the efficiency and effectiveness of the service process involved in delivering the product/service mix. The specific management activities from a process perspective are as follows:

- The drawing up of detailed operating procedures, manuals and job descriptions.
- Specifying procedures for customer problem resolution.
- Training on technical and procedural aspects of the job.
- Establishing standards of performance for the facility, the process, the equipment, and the jobs that deliver the Consumer Benefit Package.
- Facility design and layout to enhance customer/item movement through the process.

Participants (People)

The final P in the service environment is the Participants, which refer to the people who actually deliver the service at the point of customer contact. In essence the other 6 Ps play only a support role in a service environment. Whether it is a one-to-one basis, over the phone or via the Internet, the professionalism, politeness and credibility of the Participants are critical. The key issues to be considered here are the following:

- The use of employee reward system as a motivational tool.
- Training on human interaction skills and customer problem resolution.
- Personal Selling procedures and techniques.
- Self-service/group participation procedures and norms of behaviour.
- Simultaneous execution of technical and human interaction skills at points of customer contact.

Study Unit 4

Governance and Change Management

Contents

1. The main elements of governance that apply to both large and small companies
2. Implementing change
3. Power and organizational politics

THE MAIN ELEMENTS OF GOVERNANCE THAT APPLY TO BOTH LARGE AND SMALL COMPANIES

1. PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND CORPORATE DISCLOSURE REQUIREMENTS

Introduction

Corporate Governance applies to all types of organizations not just companies in the private sector but also in the not for profit and public sectors.
Examples are NGOs, schools, hospitals, pension funds, state-owned enterprises

Why Corporate Governance

- Better access to external finance
- Lower costs of capital – interest rates on loans
- Improved company performance – sustainability
- Higher firm valuation and share performance
- Reduced risk of corporate crisis and scandals

Corporate governance is important because:

- Good reputation is good business
- Protection of stakeholders' interest
- Support to capital markets
- Support to society
- Every one wins

Principles of Corporate Governance

- **Sustainable development of all stakeholders**- to ensure growth of all individuals associated with or effected by the enterprise on sustainable basis.
- **Effective management and distribution of wealth** – to ensure that enterprise creates maximum wealth and judiciously uses the wealth so created for providing maximum benefits to all stakeholders and enhancing its wealth creation capabilities to maintain sustainability.
- **Discharge of social responsibility**- to ensure that enterprise is acceptable to the society in which it is functioning
- **Application of best management practices**- to ensure excellence in functioning of enterprise and optimum creation of wealth on sustainable basis
- **Compliance of law in letter & spirit**- to ensure value enhancement for all stakeholders guaranteed by the law for maintaining socio-economic balance
- **Adherence to ethical standards**- to ensure integrity, transparency, independence and accountability in dealings with all stakeholders

Four Pillars of Corporate Governance

Accountability

- Ensure that management is accountable to the Board
- Ensure that the Board is accountable to shareholders

Fairness

- Protect Shareholders rights
- Treat all shareholders including minorities, equitably
- Provide effective redress for violations

Transparency

Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance

Independence

- Procedures and structures are in place so as to minimize, or avoid completely conflicts of interest
- Independent Directors and Advisers i.e. free from the influence of others

5. Elements of Corporate Governance

Good Board Practices

- Clearly defined roles and authorities
- Duties and responsibilities of Directors understood
- Board is well structured
- Appropriate composition and mix of skills
- Appropriate Board procedures
- Director Remuneration in line with best practice
- Board self-evaluation and training conducted

Control Environment

- Internal control procedures
- Disaster recovery systems in place
- Media management techniques in use
- Business continuity procedures in place
- Independent external auditor conducts audits
- Independent audit committee established
- Internal audit function
- Management Information systems established
- Compliance Function established

Transparent Disclosure

- Financial Information disclosed
- Non-Financial Information disclosed
- Financials prepared according to International Financial Reporting Standards (IFRS)
- Companies Registry filings up to date
- High-Quality annual report published
- Web-based disclosure

Well-Defined Shareholder Rights

- Minority shareholder rights formalized
- Well-organized shareholder meetings conducted
- Policy on related party transactions
- Policy on extraordinary transactions
- Clearly defined and explicit dividend policy

Board Commitment

- The Board discusses corporate governance issues and has created a corporate governance committee
- The company has a corporate governance champion
- A corporate governance improvement plan has been created
- Appropriate resources are committed to corporate governance initiatives

Approaches to Corporate Governance

Shareholders Approach

Generally believed that the board of directors of a company should govern the company in the best interest of its shareholders, i.e. the owners of the company. This approach is lent credence and weight by the fact that all the directors are elected by and answerable to shareholders.
Make such policy that aim at maximization the shareholders value (Profit) often at the expense of other stakeholders.

Stakeholders Approach

Also known as Plurist Approach and considered as the ideal approach by the proponents of Corporate Governance. BOD formulates such policies that provide equal care of the interests of all Stakeholders. It is not a practical approach for the simple reason that directors are elected by and accountable only to the shareholders.

Enlightened Shareholders Approach

This approach offers compromise between the afore-said two approaches. It requires the BOD to work for the interest of shareholders, but without damaging the interests of the other stakeholders. i.e. having a fair balance of interest.

CORPORATE DISCLOSURE REQUIREMENTS

What is Corporate Disclosure?

Corporate disclosure can be defined as the communication of information by people inside the public firms towards people outside. The main aim of corporate disclosure is “to communicate firm performance and governance to outside investors”.
This communication is not only called for by shareholders and investors to analyse the relevance of their investments, but also by the other stakeholders, particularly for information about corporate social and environmental policies.

How can disclosure be made effective?

Two broad goals in designing effective disclosure standards

- how to achieve transparency
- how to achieve market discipline

Disclosure and transparency

- Disclosure doesn't necessarily achieve transparency
- To achieve transparency, disclosure must enable users to properly assess the corporate's risk profile, financial condition and performance, business activities etc.

Therefore disclosure must be:

- comprehensive
- relevant and timely
- reliable
- comparable
- material

The importance of Disclosure

- Corporate Disclosure system provides reliable and relevant information to the interested parties for their decision making.
- Through disclosure requirements, a proper recording and classification of economic transactions of the business concern can be achieved.
- A fair picture of the business and the true results of its operations over a period of time are made available.
- The business future trends can be estimated with greater accuracy, if the financial reports are prepared in accordance with the rules and regulations of disclosure. Thus financial reports should include all the material information relevant for various interested groups for decision making.

What should be disclosed?

- Financial performance (breakdown of income and expense etc)
- Financial position (breakdown of on and off-balance sheet items, including capital position and liquid assets)
- Risk management strategies and practices
- Risk exposures (including quantitative and qualitative information on credit, market, liquidity, operational, legal and other risks)
- Accounting policies
- Basic business, management and corporate governance information (including business strategies, group structure, board and management structure, remuneration policies etc)

Necessary conditions for disclosure to be effective

- Effective disclosure depends on the infrastructure within which businesses operate
- The nature and adequacy of corporate law
- The adequacy of accounting standards and auditing requirements
- The expertise and integrity of the auditing profession
- The adequacy of the financial news media and market commentators and analysts

INTERNAL CONTROL, AUDIT AND REVIEW

Internal Control Defined

An entity's system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals including:

- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness and efficiency of operations

Reasonable Assurance

Reasonable assurance involves two considerations:

- The cost of the entity's internal control should not exceed the expected benefits.
- Limitations exist in any entity's internal control.

Understand the internal audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Control

Internal Control Comprises of five elements:

- The control environment.
- Risk assessment
- Control activities
- Information and communication
- Monitoring

Elements of Internal Control

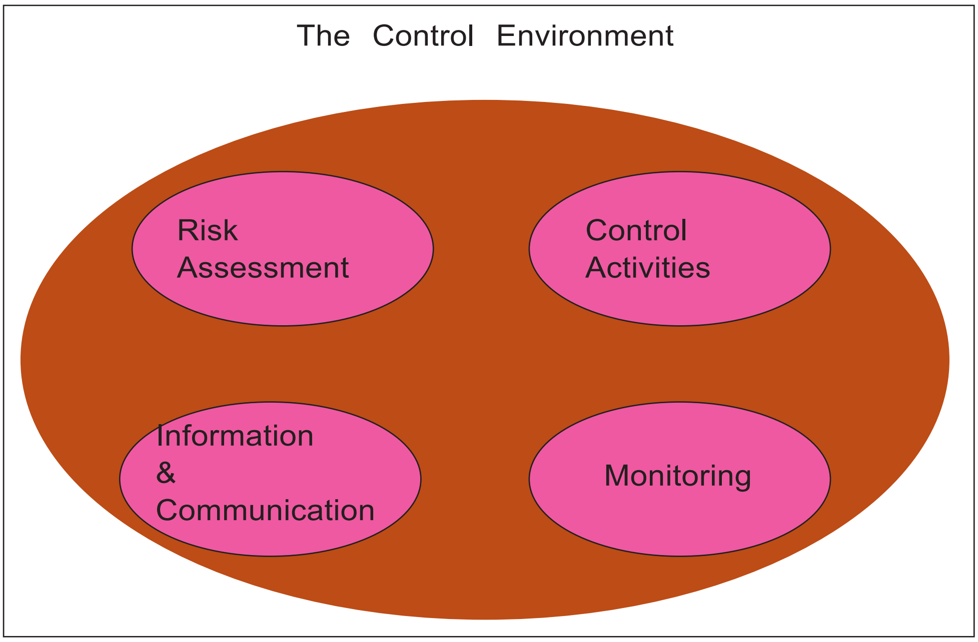


Figure 4.1: Elements of Internal Control

The Control Environment

The control environment is concerned with the actions, policies, and procedures that reflect the overall attitude of the top management, directors, and owners of an entity about internal control and its importance.

It includes:

- Integrity and ethical values
- Commitment to competence
- Board of directors and audit committee
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

Risk Assessment

Client management's identification and analysis of risks relevant to the preparation of the financial statements in accordance with GAAP.

Assessment to be conducted are:

- Client Management's Risk Assessment
- Auditor Risk Assessment

Control Activities

Policies and procedures that client management has established to meet its objectives for financial reporting. Including:

- Adequate segregation of duties
- Proper authorization of transactions and activities
- Adequate documents and records
- Physical control over assets and records
- Independent checks on performance

Information and Communication

Methods used to initiate, record, process, and report an entity's transactions and to maintain accountability for related assets.

- For a small company with active involvement by the owner, a simple computerized accounting system that involves one honest, competent accountant may provide an adequate accounting system.
- A larger company requires a more complex system that includes carefully defined responsibilities and written procedures.

Monitoring

Client management's ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and modified when needed.

- For many companies, especially larger ones, an internal audit department is essential for effective monitoring.
- To maintain internal audit independence, it is imperative that they be independent of operating and accounting departments; and that they report to a high level of authority, preferably the audit committee of the board of directors.

What is Internal Audit's purpose?

- To assist the Board in carrying out their fiduciary responsibility of the governance of the organization.
- To assist in recognizing and managing risks to the organization.

What kind of work does Internal Audit do?
Audit aims at analysing and verifying the accuracy and reliability of the financial statement and other organization's operational activities.

1. Audits: Evaluations of various processes, functions, departments, and activities (NOT people) to:

- Identify risks
- Determine whether those risks are adequately mitigated

2. Consultations: Provide advice and information to departments on internal controls, risk management, and sound business practices in such areas as policy development, system or process development, specific issue resolution, etc.

3. Investigations: Conduct internal investigations regarding allegations of fiscal misconduct and fraudulent actions that adversely impact the organization. This work looks at the actions of individuals and their intent.

4. Education: Conduct workshops or any other information presentation to the organization on internal controls, risk management, fraud prevention, and sound business practices.

External Audit
The periodic, systematic and independent examination of the financial statements of the company conducted by a third party for specific purposes, as required by statute is known as External Audit. The main aim of external audit to publicly express an opinion on:

- The truthfulness and fairness of the financial statement of the company
- The accounting records are complete in all respects and prepared as per the policies outlined by GAAP (Generally Accepted Accounting Principles) or not.
- All material facts are disclosed in the annual accounts.

For carrying out an external audit, the auditor is appointed by the members of the company. He should be independent, i.e. he should not be connected to the organization in any way so that he can work in an impartial way without any influence.
The auditor has the right to access books of accounts to obtain necessary information and provide his opinion to the members by way of the audit report. External Audit gives an opinion of the true and fair view of the financial statement.

Review
The main purpose of reviews is to share information, make collective decisions and re-plan the continuation of the operational as appropriate. Involves regular reviews to provide the opportunity for implementers and other key stakeholders to further analyse information collected to:

- Monitor
- Reflect on the implications
- Make informed decisions
- Take appropriate management action to support effective implementation of recommendations

INTEGRATED REPORTING AND SUSTAINABILITY REPORTING

1. Integrated reporting – is a process that results in communicating-through an annual integrated report-how organizations create value over time, and their impact from an economic, social and environmental point of view. It has the potential to shed light on critical issues and bring together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates.

2. Corporate reporting - is characterized by a strong focus on financial performance and a lack of information on corporate strategy and non-financial performance. Its purpose is to offer forward-looking information about strategy, performance and risk.

3. The origin of integrated reporting lies in corporate governance, as a solution to demands on corporate leadership regarding the sustainability, strategy, performance and risks.
This help a company to reporting how its governance structure supports the organization's ability to create the value in the short, medium and long term and the integrated report can be used as a corporate governance tool.

4.The fundamental concepts of the IR are:
The capitals that an organization uses and affects

- The organization's Business Model
- The creation of value over time

5. Key objectives of Integrated Reporting:

- To enhance accountability and stewardship with respect to the broad base of six kinds of capitals (financial, manufactured, intellectual, human, social and relationship, and natural)
- To promote understanding of their interdependencies.

Integrated Reporting is designed to support:

- **Integrated thinking:** don't consider different factors separately think about the way they affect each other
- **Decision making:** consideration of all factors guide decision making process
- **Sustainable value:** Actions, that focus on sustainable value creation for stakeholders
    - To establish :
        - Fundamental concepts
        - Guiding principles
        - Content elements
    - That govern the overall content of an Integrated Reporting

Therefore, the **Overall Purpose** of the IR is to communicate and illustrate a broader understanding of the organizational performance compared to traditional reporting practicably by describing, and measuring:

- the material elements of value creation,
- the different type of capitals employed and affects and
- the intertwined relationships between them.

Content Elements of Integrated Reporting

Organizational overview and external environment
What does the organization do, and what are the circumstances under which it operates?

Governance
How does the organization's governance structure support its ability to create value in the short, medium and long term?

Opportunities and risks
What are the specific opportunities and risks that affect the organization's ability to create value over the s/m/l term and how is the organization dealing with them?

Strategy and resource allocation
Where does the organization want to go, and how does it intend to get there?

Business Model
What is the organization's BM, and to what extent is it resilient?

Performance
To what extent has the organization achieved its strategic objectives, and what are its outcomes in terms of effects on the capitals?

Future outlook
What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its BM and its future performances?

Guiding Principles of Integrated Reporting
Strategic Focus and Future orientation
The report provide insights into the organization's strategy and how that strategy relates to the organization's ability to create value in the s/m/l term and its use of and effects on its capitals.

Connectivity of information
The report should show the combination, interrelatedness and dependencies between components that are material to the ability to create value over time.

Stakeholder responsiveness
The report provide insights into the quality of the organization's relationship with its stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations.

Materiality and conciseness
The report should provide concise information that is material to assessing the organization's ability to create value in the short/medium/long term.

Reliability and completeness
The report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability
The information should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story.

1. Sustainability reporting
Suitability reporting is the practice of measuring, disclosing, an being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development.

The purpose of sustainability reporting

- **Benchmarking** and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;
- **Demonstrating** how the organization influences and influenced by expectations about sustainable development, and
- **Comparing performance** with an organization and between different organizations over time.
- Intended **to improve internal processes, engage stakeholders** and **attract investors.**

CHANGE MANAGEMENT
Organizational change is defined as the adoption of a new idea or behaviours by an organization (Daft, 2010).

The management of change has become a top priority for all managers irrespective of the organization. Change is now occurring at a far greater pace than ever before.

Hussey (1995), argues that dealing with change is one of the most critical aspects of effective management and that the turbulent business environment in which most organizations operate means that not only is change becoming more frequent, but that the nature of change is becoming more complex and the impact of change is often more extensive.

1. NATURE OF CHANGE IN BUSINESS

Forces for Change
Forces for change exist in both the external and internal environment. External forces originate in all environmental sectors including customers, competitors, technology, demographic changes, economic and international events. Internal forces for change arise from internal activities and decisions such as demands by employees, labour unions, and production inefficiencies. These internal factors can all generate a force to which management must respond to with change. Rapidly increasing competition in all areas is driving the need for change and innovation (Daft, 2010). Some important drivers of change are now discussed:

Globalisation
Domestic markets are now open to foreign competitors, which provide intense competition. Businesses are forced to change in response to new, cheaper and/or higher quality products. The trend toward globalisation has resulted from the emergence and development of a number of important industrial economies which have provided intense competition in established

markets, especially that of high technology:

- The emergence of newly industrialised countries including South Korea, Taiwan, Hong Kong and Singapore.
- The emergence of the single European Market.
- The move to more open-market-based economies in Eastern Europe, and the former Soviet Union.
- Development in the Asia Pacific region.
- The opening up of China to foreign investment.

Technology Developments
Some of the most dramatic changes have occurred in the area of technology. New automated technology allows manufacturing to operate more efficiently with a reduced work force. Information technology allows companies to operate more effectively and efficiently. The emergence of e-business and the use of the Internet for business purposes has probably been the most significant change to the conduct of business in the last decade. Organizations now have electronic links to suppliers and customers, connecting manufacturing and inventory functions to aid re-ordering. Business-Business (B2B) transactions allow organization to purchase supplies over the Internet. Business-Consumer (B2C) transactions allow organizations to deal directly with customers through online facilities. Customers wishing to purchase goods online simply login to the organizations website and can purchase goods with a credit card.

Changes in the Nature of the Labour Force
The world labour force is changing significantly both in terms of composition, values and expectation. Organizations in the developed world have an ageing workforce, which are more costly than organizations in developing countries with a young work force. Unless these costs are met with higher productivity, developed countries will become less competitive.

A Move Away from Labour Intensive Industry
In recent years there has been a move away from traditional labour intensive industries e.g. iron, steel, coal and mining, to knowledge-based industries and services.

Traditional industries required large numbers of people at cheap rates and were heavily supervised. The move towards knowledge-based industries and organizations means that different people and different forms of organization are required. Organizations will contract or outsource work to agencies while retaining a core group of talented workers.

Rapidly Increasing Competition
Competition is increasing in all industries and sectors, which drives the need for companies to continually develop new improved quality products and services.

Customer Expectations
Organizations need to be able to adapt to changing customer expectations. Customers are becoming more demanding in terms of product quality, lower prices, product features and after sales services etc. This is in part driven by the greater availability of information facilitated by the internet. Customers can search for information regarding products and increasingly purchase products and services online.

Other drivers of change include; changes in law and regulation at both a national and international level, changing customer tastes, emerging social issues, increased focus on environmental issues, growth in outsourcing, economic downturns, organizations focus on increasing profits and increased efficiency etc.

2. IMPORTANCE OF MANAGING CHANGE

In today's dynamic environment, managing change is critically important as organizations must embrace many different types of change. Organizational change requires companies to adopt new ideas and behaviours.

A change program that is poorly managed will at best not reach its goals, but is more likely to have a detrimental impact on the performance of the section being changed and at worst could impact the whole organization.

A poorly managed change program can result in:

- Slow pace of change within the organization.
- Employees reverting back to old behaviours if they don't buy into the change.
- Individuals can become focused on their own interests and as a result teamwork and co-operation can suffer.
- The performance of the company in the marketplace suffers if it losses competitiveness.
- Employees may oppose change programs in the future if they feel that a previous change initiative was not a success.

A number of models and approaches have been proposed for managing change. Some of these are now discussed.

3. MODELS OF CHANGE MANAGEMENT

Kotter's Eight Stage Change Process

In response to research which indicated the 70% of all major change efforts in organizations fail, Dr. John Kotter developed an 8-step process that can be used to bring about change in an organization. Why do change efforts fail? Perhaps because organizations often do not take the holistic approach required to see the change through.

Kotter's model can be divided into three distinct stages:

Stage 1: Creating a climate for change:

1. **Increase urgency** – explain the need to change – remove fear and complacency.

Establishing a sense of urgency is necessary to gain the cooperation required to drive a significant change effort.

2. **Create a guiding team** – Assemble a group with enough power to lead the change effort and encourage the group to work as a team.

No one person, no matter how competent, is capable of single handedly developing and making the change happen on their own.

3. **Get the vision right** – Create a vision for the future to help direct the change effort, and develop strategies for achieving that vision.

A clear vision serves three important purposes. It simplifies hundreds or thousands of more detailed decisions needed, it motivates people to take action in the right direction and it helps to coordinate the actions of the different people involved.

Step 2: Engaging and enabling the organization (involve the stakeholders**):**
4. **Communications (vision) for buy-in** – Use every vehicle possible to communicate the new vision and strategies, and teach new behaviours.

Gaining understanding and commitment to a new direction is a difficult task, especially in the case of complex organizations
5. **Enable action** - Remove obstacles to change, change systems or structures that seriously undermine the vision, and encourage risk-taking and non-traditional ideas, activities and actions.

6. **Generate short-term wins** – Plan for visible performance improvements, create those improvements, recognise and reward employees involved in the improvements.

This demonstrates to everyone involved that progress is occurring.

Step 3: Implementing and sustaining the change (leading the change**):**

7. **Don't let-up** – You must persist with the change; monitoring & measuring progress and reinvigorating the process with new projects regularly.

The consequences of letting up can be very serious - critical momentum can be lost and regression may soon follow.

8. **Incorporating the Changes into the culture** – leaders must recognise, reward and embed the change into the company culture.

New practices must grow deep roots in order to remain firmly planted in the culture.
Adapted from http://www.kotterinternational.com/kotterprinciples/changesteps/step-8

The Three Step Model of Change
Lewin (1958), argued that change towards a higher level of group performance is often short lived - after an initial improvement; group behaviour soon reverts back to its previous level. According to Lewin a successful change program should involve three stages:

- Unfreezing
- Moving
- Refreezing

Unfreezing
Unfreezing involves reducing the forces maintaining the organization's behaviour at its present level. Rubin (1967) argues that it requires some form of confrontation or re-education for those involved. This re-education could take the form of team building or management development training. This stage involves convincing the relevant parties of the need to change. This could involve presenting data to show that serious problems exist with the current situation.

Moving
Having analysed the current situation, identified alternatives and selected the most appropriate strategy, action is then needed to move to the new state. This requires developing new behaviours, values and attitudes through changes in organizational structure and processes so that those involved do not revert back to the old way of doing things.

Refreezing
Refreezing seeks to stabilise the organization at the new state, in order to ensure that there is no regression from the new ways of working. Support mechanisms including organization culture, policies and practices are used to reinforce the new way of working.

Force Field Analysis
Force Field Analysis is a technique based on the idea that change was a result of the competition between **driving forces** (forces in favour of change) and **restraining forces** (forces resisting change). When a change is introduced, some forces drive change and other forces resist it. To implement a change, management should analyse the change forces and by selectively removing forces that restrain change, the driving forces will be strong enough to enable implementation. Figure 8.1 shows some examples of driving and resisting forces.

Change is a difficult process for organizations to carry out. When considering change, it is often helpful to construct a force field. This is a diagrammatic representation showing the various forces acting for and against, the proposed change. The force field was originally developed by Lewin, who recognised that a stable social situation is the result of a balance of opposing forces. One set of forces will be attempting to implement the change; these are the driving or facilitating forces. The opposing forces act against change and wish for the status quo to remain; these are the resisting or restraining forces. Both sets of forces work to try and shift the equilibrium point. See Figure 10.1

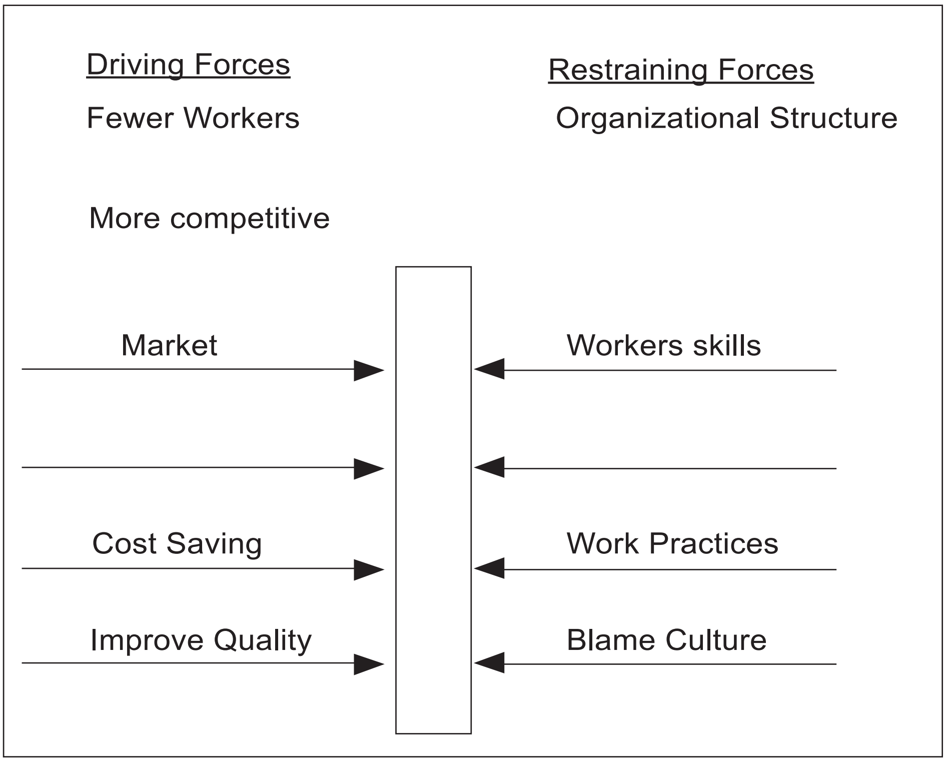


Figure 10.1: Force Field Analysis

4. DEALING WITH RESISTANCE TO CHANGE

Resistance to change can come from the individuals or from the organization itself.

Individual Sources of Resistance

Nadler (1983) and Stanislao/Stanislao (1983) have identified several individual sources of resistance to change which include:

- Habit/Security
- Selective perception
- Economic factors
- Security
- Social factors
- Lack of understanding

Habit/Security

As people do their jobs they develop habits in the way they work. They also develop routines that help get them through the week. They develop a sense of security in their job and also in their lives. If there are any changes in their work they can become insecure. Pressure to change habits and routines can lead to resistance particularly if the individual does not see any advantage in changing. One method of overcoming this resistance is to offer rewards linked to the change

Selective Perception

Individuals tend to selectively perceive or view issues and events in a way that matches their understanding of their work environment and the world. In resisting change the individual will often filter and misunderstand things they do not agree with. Communication is one way of addressing this type of change.

Economic Factors

Changes in work practices that affect skills learned over a number of years could affect the income of the individual in the long term or the short-term while they learn the new skills.

Security

Individuals like to feel comfortable and secure in completing things in the same way. In doing so, they gain a degree of security in their jobs and in their lives. When the status quo is threatened by change, employees feel their security is at risk, and consequently they resist such change. Confronting any form of the unknown makes the individual anxious and insecure. Insecurity arises not only from the change itself but also from the prospective outcomes of such change; for example, employees may turn down a promotion due to insecurity and fear of the unknown.

Social Factors

Individuals are affected by group pressure or group norms. An individual may wish to embrace change but could resist it because of group pressure. Conversely they may accept change because the group accept it even though as an individual they are inclined to resist it.

Lack of Understanding

If an individual does not fully understand the reason the change is necessary, he or she may resist the change. Therefore communication is an important element of any change program.

Organizational Sources of Resistance
Katz and Kahn (1978) identified the following organizational sources of resistance to change:

- Organizational structures
- Narrow focus of change
- Group inertia
- Threatened expertise
- Threatened power and influence
- Threatened resources

Organizational Structures
Organizational structures such as roles, policies, rules and procedures are designed to maintain stability and continuity. However, these same structures can by their nature act as a form of "structural inertia" (Hannon and Freeman, 1984) that will slow the progress of change.

Narrow Focus of Change
Change programs that have too narrow a focus may fail to take account of the interdependencies between elements in an organization. In this situation segments of an organization may resist the change.

Group Inertia
Group inertia occurs when a group refuses to change its behaviour patterns because of a desire to maintain the status quo.

Threatened Expertise
If the expertise of an individual or group is threatened by the introduction of new technology or job re-designs, resistance to change is likely. This is common in traditional industries such as manufacturing.
Threatened Power and Influence
The introduction of change within organizations often involves loss of power for some individual. The loss of power increases resistance to change.

Threatened Resources
The loss of power associated with change can often be accompanied with the loss of resources such as personnel, money and information. Individuals or groups who currently enjoy favourable allocations of resources will resist change to the status quo.

Overcoming Resistance to Change
Several methods can be employed to overcome resistance change. These include:
Data collection: Identifying the source of the resistance.

Coalition building: Providing advice and support from powerful individuals in the organization to those who may pose resistance.

Negotiation and agreement: Using bargaining and tradeoffs, including financial bargaining.

Articulation of a shared vision: Communicating a vision of the future can overcome a fear of the unknown.

Education, communication and training: Through effective communication, information and re-skilling, resistance can be lowered.
Participation and involvement: Identifying potential resistors and involving them in the change process in positives roles.

Rewards and incentives: Increasing motivation using money and other incentives.

5. IMPLEMENTING CHANGE MANAGEMENT PROGRAMMES

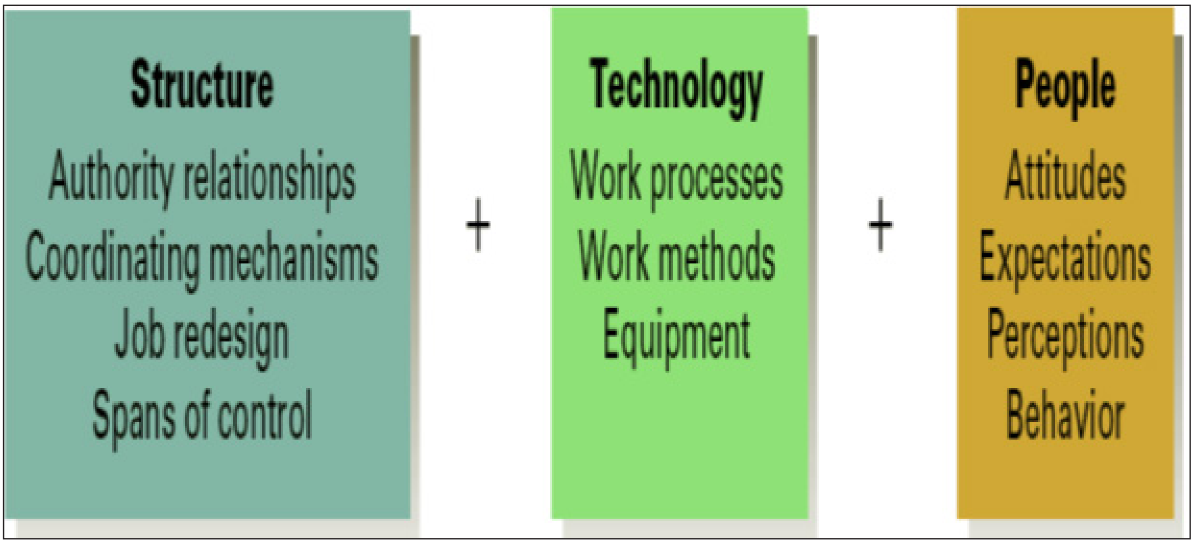
Radical and Incremental Change

There are two basic types of change projects:

- **Radical change**: Radical change operates at the organizational level and attempts to transform the entire organization. This type of change is strategy driven and involves changing structures, practices and procedures, people and systems.
- **Incremental change**: This is small-scale change that is aimed at a small part of the organization.

Peters and Waterman (1982) suggested that strategic change should be broken down into a series of small but interrelated chunks. In other words, radical change that is broken down into a number of related incremental changes.

Three Categories of Change



Change Management Approach
There are numerous models available for implementing change management programs. Regardless of the model used the following factors need to be addressed:

- **Strategy:** Any change program must be considered in light of the organization's objectives and priorities.
- **Phased approach:** The majority of the approaches to change management suggest a phased approach. The following stages are important:
    - Create recognition of the need to change
    - Make the actual change
    - Evaluate and consolidate.
- **Involvement:** Those who are directly involved in the change should be involved in planning and executing the change. Involvement helps gain commitment and buy-in from workers.

Communication: Communication helps reduce resistance to change.

- **Behavioural change:** The success of a change program depends on individuals and groups changing their behaviour.
- **Culture change:** Where the changes being undertaken are at odds with the current organizational culture, the change project may involve changing the culture of the organization. This would be radical change rather than incremental change.

Management Styles and Change

Management styles are the techniques used by managers or Change Agents in introducing change. The change agent is the person responsible for managing the change effort. The various management styles are designed to overcome resistance to change, and the style used will depend on the extent and nature of resistance to change in any given situation. According to Kotter and Schlesinger (1979) there are six main styles of management associated with introducing change:

- **Education and communication** are appropriate where problems and resistance are caused by insufficient information or misinformation. Such a style requires an atmosphere of trust between the sides involved. Education and communication are generally more effective if they take place before the change is implemented. However, this style is costly and time-consuming as it involves mass briefings. Organizations dealing with large numbers of employees can use small group briefings to ensure effective communication.

- **Participation** is appropriate where the commitment and participation of employees is vital to the success of the change programme. It is an effective way of overcoming resistance based on lack of awareness or a narrow focus of change. Employees who are involved in the change process are also more likely to accept changes. Participation usually involves project teams or task forces who generate ideas and give advice on implementing change. Once again, this style is time-consuming and costly.

- **Support and facilitation** are appropriate management styles when employees are experiencing difficulty in coming to terms with the new changes. Support and facilitation help to overcome resistance arising from a fear of the unknown and the need for security. Schneider *et al*. (1996) have argued that creating the correct climate and culture for change determines whether change will be successful. This style of management involves providing support mechanisms for employees to help them cope with change. Most frequently organizations provide additional training or extra emotional support while employees get used to the changes. A problem associated with this style is that while it may help people through the change process, it does not necessarily win their commitment and support. It is also time-consuming and can fail.

- **Negotiation and agreement** is a useful management style when groups or key individuals are negatively affected by the change, and have sufficient power to resist and interrupt the introduction of change. A good example is a Trade Union whose primary concern is to protect the welfare of its members. Trade unions resist any change that negatively affects their members. By engaging in negotiation before implementation, the organization may find the change process runs more smoothly. If any other problems arise during the course of implementation, then both sides can refer to the written agreement to sort out these problems. This method is most appropriate for overcoming resistance to change arising from threatened expertise, power, resources and group factors. The possibility of rewards, such as increased wages or perks, can also be examined to reinforce the direction of change (Nadler, 1981).

- **Manipulation** of the situation by the agent can make it easier to introduce change. For example, it has been established that crisis situations are more likely to motivate people to change. So organizations can attempt to exaggerate the extent of the situation facing the organization, to make it appear as if the organization is in a crisis. This style is often used when resistance is caused by habit, re allocation, economic and group factors.

- **Coercion** involves the explicit use of power by issuing directives to employees about the changes being implemented. Managers or the change agent resort to coercion if all other methods have failed to reduce resistance to change. It is generally recognised as the least successful method of introducing change. Even when coercion is applied, and employees accept change, it can have long-term negative effects on employee attitudes and behaviour.

Each of the management styles described above is appropriate for particular situations. Education and communication are most effective for incremental change or where transformational change is being introduced over a long period of time. Manipulation and coercion are effective if there is a crisis or a need for rapid transformational change. Participation and negotiation are intermediate styles whereby transformational change can be achieved with less risk, but they are also effective in incremental change (Nutt, 1989).

Successful Change Programs

Following a clearly defined model of change is not sufficient to ensure success. Research by the Harvard Business School, which investigated the effect on performance of change initiatives, found that only 30% of these change initiatives produced an improvement in bottom line results. However, some organizations introduced change programmes that were very successful. So what factors contributed to the success of a change program? Pettigrew and Whipp (1991) conducted research in the UK in a number of industries from publishing to automobiles. They identified organizations, which had introduced strategic change programmes and pinpointed aspects of their successful programmes. Based on their research, they argue that successful strategic change depends on five interrelated elements:

- **Environmental assessment:** Organizations, which introduce successful change programmes, assessed their external environment very carefully, went beyond acquiring and processing data and became open learning systems. External developments within the business environment were effectively communicated to employees and championed by a change agent.
- **Leading change:** Pettigrew and Whipp (1991) found that success depended on the ability of the change agent to establish and develop a context for change both in cultural terms and in the capabilities of the organization. Styles of management were used which were tailored to the context, and the change agent altered the approach where necessary.
- **Strategic human resource management**: Successful organizations integrated their human

resource management (HRM) policies with their strategic changes. Training and development, employee relations and rewards were all designed to facilitate the introduction of the desired changes.

- **Linking strategic and operational change**: Organizations, which have successfully managed strategic change, have effectively linked strategic change with operational change. In other words, there has been a clear connection and consistency between strategic, tactical and operations plan.
- **Coherence:** The most complex factor arises from the demands of the previous four.
- Pettigrew and Whipp (1991) found that success depended on coherence across all aspects of the organization as follows:

    - Consistency between intended strategy, strategic objectives, operational plans and the behaviour of the change agent.
    - Consistency between the direction of strategic change and the environmental changes.
    - A feasible strategy in terms of the resources required, organizational structure and the changes required to the organizational culture.
    - A strategic direction that is clearly related to achieving competitive advantage.

Four Major Factors in Leading Change
Leader – Know yourself as a leader, people will decide on their own whether to follow you
Follower - Different people require different styles
Communication – Two-way, you must set the example
Situation -All are different, use judgment to determine best course of action
How to Implement Effective Change Management
Effectively managing change requires two perspectives: an individual perspective and an organizational perspective.

Individual Change Management
The individual perspective is an understanding of how people experience change. Prosci's ADKAR Model **describes change as successful when an individual has:**

- Awareness of the need for change
- Desire to participate in and support the change
- Knowledge on how to change
- Ability to implement required skills and behaviors
- Reinforcement to sustain the change

If an individual is missing any of these five building blocks, then the change will not be successful. The goal, then, in leading the people side of change is ensuring that individuals have awareness, desire, knowledge, ability and reinforcement®.

Organizational Change Management
The organizational perspective of change management is the process and activities that project teams utilize to support successful individual change. If ADKAR describes what an individual needs to make a change successfully, then organizational change management is the set of actions to help build awareness, desire, knowledge, ability and reinforcement across the organization. Based on over a decade of research, Prosci's organizational methodology utilizes readiness assessments and strategy development to support the creation of five targeted plans:

- Communication plan
- Sponsor roadmap
- Coaching plan
- Training plan
- Resistance management plan

The Importance of Change Management Roles

While the change management resource on a project can work to develop the strategy and plans, much of the work of change management is done by senior leaders, managers and supervisors throughout the organization. Benchmarking data shows that in times of change, employees have two preferred senders of change messages:

- Someone at the top of their organization
- The person they report to

Change management practitioners are enablers of these employee-facing roles. And, in times of change, it is the effectiveness of senior leaders as sponsors of change and of managers and supervisors as coaches of change that will determine if a project succeeds or fails.

So what can you do to become a more effective change leader? The bottom line is this: begin applying change management on your projects and begin building change management competencies in your organization. These are the first steps to ensuring projects deliver their intended results.

The people side of change is not the soft side of change; in reality it is the harder side of change. Investing the time and energy to manage the people side of your organizational efforts pays off in the end – in terms of success of the effort and avoidance of the numerous costs that plague poorly managed change.

POWER AND ORGANIZATIONAL POLITICS

1. KEY CONCEPTS

Politics

Politics refers to the use of power and authority to influence organizational outcomes.

Power

Power is the capacity to ensure the outcomes one wishes and to prevent those one does not wish. Influence-- the capacity to affect others.

Chandler (1992) defined power as having control, influence, or dominance over something or someone.

Kanter (1993) defined power as the ability to get things done, to mobilize resources, to get and use whatever it is that a person needs for the goals he or she is attempting to meet.

Power is not necessarily open coercion, influence, or control. Power is the perception of others that the power wielder could exercise coercion, influence, or control if he or she chose to do so.

Use of power increases when structure is decentralized, resources are scarce, there is disagreement on goals, and there is uncertainty about technologies

In other words, when resources are limited, goals and processes are unclear, Power Politics are very likely.

Authority
Authority is the capacity to give commands, enforce obedience, take action, or make final decisions.
Influence
Influence is the capacity to affect others.

THE USES OF POWER
Power, when acquired, is meant to be used to achieve some purpose(s). Appropriate use of power leads to the achievement of desired goals and objectives. Ineffective use of power or failure to use power when the need arises has been described as the major cause of defective functioning of a system. This is possible among inexperienced managers and those who lack self-confidence. They tend to avoid using power, preferring to pass problems with difficult employees and the like to others (Obisi, 2003).

The organizational consequences of not using power appropriately become increasingly pronounced toward the top of an organization because in hierarchical systems abdications of authority have effects all the way down the line. Yet, trying to use power that one does not have (because of legal constraints, for instance) can be equally detrimental. This is true because managerial actions with regards to employees may be reversed by labour relations, board decisions (where it exists), the courts, arbitrators and the power of public pressure at considerable cost to the company. Thus, judicious and effective use of power is one of the most difficult lessons a manager has to learn (Obisi, 2003)

BASES AND SOURCES OF POWER
Bases of Power
There is need to make a distinction between BASES of power and SOURCES of power. This distinction has important implications for the authority-influence contrast. In dealing with the bases of power, we are interested in what parties control that enables them to manipulate the behaviour of others. In referring to the sources of power we are speaking of how parties come to control the bases of power.

French and Raven (1959) distinguish six major bases of power. They include:
(a) COERCION – this implies the threat of decreasing another's outcomes. The holder can apply punishment or sanction;

(b) EXPERTISE – this is formal or specialized knowledge about particular issues or activities with an organization. The person with expertise has the status of an expert and thus is likely to be accurate;

(c) REWARDS – this implies the promise of increasing the outcomes of the employer. The holder of this can give or withhold something desired;

(d) LEGITIMACY – The holder of this power is viewed as right in terms of the values of the one influenced; this is tantamount to authority. Authority is power based on rights of control and concomitant obligations to obey;

(e) REFERENT POWER – this is more interpersonal in nature than legitimacy. It means power based on identification with another. This is exemplified by the power of charismatic leaders who elicit deference and are accorded credibility by others (Bacharach and Lawler, 1980). The individual influenced desires to model his/her behaviour to the source of influence; and

(f) INFORMATION - this consists of the access or opportunity actors have to gain information about the inner workings of the organization or about the relation of the organization to the environment. This information may or may not be related to the actor's level in the hierarchy of authority in the organization.

Given the contrast of bases and sources of power, Etzioni (1961) provides a somewhat better starting point. Unlike French and Raven, Etzioni appears to maintain a consistent focus on the bases of power. He identifies three forms of power, each relying on a different type of sanction:

- **Coercive Power:** rests on the ability to apply the threat of physical sanction;
- **Remunerative Power:** based on the control of material resources and reward; and
- **Normative Power:** based on the control of symbolic rewards.

Sources of Power

Having identified the primary bases of power, attention must now turn to the different Sources of power. There are about four main sources of power. These include:

(a) Office or Structural Position: The office or structural position might provide a party access to various bases of power. Some positions might provide little information but substantial coercive resources, while others might give the occupant the capacity to manipulate symbols or mobilize internalized commitments to certain norms (Bacharach and Lawler, 1980).

(b) Personal Characteristics: The most marked personal characteristic that is a source of power is charisma. As Weber (1947) indicates, the charismatic leader has power by virtue of extraordinary and often mystical characteristics. However, relevant personal characteristics might also include verbal skill, ability to argue effectively for positions, or even physical attributes (for example, a physical disability of a veteran espousing a pro- or antiwar position).

(c) Expertise: Expertise refers to the specialized information actors bring to the organization. It is typically based on activities outside the organization, for example, education. This is treated as a source of power, rather than a basis of power in French and Raven's terms, because it seems to be a means by which a party comes to control specialized information rather than the control itself (Bacharach and Lawler, 1980).

(d) O**pportunity:** - This particular source of power is embedded in the informal structure of the organization. The idea comes from Mechanic's (1962) analysis of the power of the lower levels in an organization (such as sectorial staff). The informal aspects of formal positions or informal positions that are not identified officially by the organization can provide an important source of power (Bacharach and Lawler, 1980).

ORGANIZATIONAL POLITICS

The term politics is derived from the Greek word "politics" meaning a city or state. It was originally used by Aristotle (384-322) in his book POLITICS to mean the affairs of Greek city or state. In his view, man is a political animal who by interacting with another or more persons produces a relationship called political. Lasswell (1951) writes that politics is essentially the struggle for positions of power and influence by which those who succeed in monopolizing such positions in society are able to make decisions that affect the lives of every citizen within the country.

By implication, politics can be practiced by all persons in both governments and organizations with the objective to struggle for power, influence, conflict, bargaining, reconciliation, resolution and consensus. Thus, there are two types of politics, namely: state politics and organizational politics. Here, we will concentrate mainly on organizational politics.

Organizational politics relates to behaviours that are outside those in which the organization has taken a specific position for or against, the behaviors are intended to obtain selfish and individual ends that are opposed to the ends of others in the organization.

Organizational politics may focus on the goals of groups as well as individuals and they may well involve behaviours that are harmful to the organization as a whole. They appear to be inevitable but at the same time there are wide variations from organization to organization. Ethical issues often come to the fore and bargaining is an important consideration in organizational politics (Obisi, 2003). Organizational politics create very ambivalent responses because people look at the whole process both negatively and positively, depending on the particular perspective they have in mind. However, those who are successful in organizational politics tend to be viewed positively perhaps because they are successful competitors in other respects as well.

SOME SUGGESTED POLITICAL TACTICS

The following are some of the political tactics proposed to achieve a competitive advantage. These tactics have their origin in practical experience.

- Expert influence over the time and place of your bargaining efforts so that these conditions are selected to support your goals. In many cases, it is advisable to bargain in your home territory.
- It is a desirable bargaining tactic to disguise your true interests for as long as possible; to be overly eager for a given outcome may leave you at a district disadvantage with regard to other related considerations.
- Shoot for the moon initially so that you can then settle for less but do not use this tactic too often with the same person.
- Identify any weaknesses that adversaries may have and continually work on and publicize them.
- Where the opposition consists of a loosely assembled coalition try to point out the differences within the coalition and any common interests you have with each member, thus attempting to divide and conquer.
- Establish alliances with superiors, peers, and subordinates so that when needed they can be counted to be on your side.
- Select subordinates who are not only competent but reliable, dependable and, above all else, loyal.
- Do not get yourself in a position of relying on an adversary's expertise: if you are not knowledgeable in an area, secure your own expert and take steps to establish his or her credibility.
- Do not injure another person who is or might well be in a position to take revenge.
- Do not do anything to alienate or anger former colleagues when leaving a position; bridges that have been burned may be needed unexpectedly.
- If a proposal developed by an adversary is unattractive but cannot be thwarted immediately, attempt to refer it to a committee to delay it and widen the bargaining area.
- If the outcome is uncertain, it is often desirable to support the aggressive efforts of someone else rather than take the lead oneself. That way, it may be easier to get the ship early if it happens to sink.

- In dealing with an adversary, try to leave the door open so that communication is not closed off and differences can still be resolved if necessary.
- Avoid dealing in personalities, never attack the adversary personally and focus on real facts and issues. Choose when and under what circumstances a vote should be used to settle an issue. Let matters go to a vote for resolution only when you know you have a majority.

Study Unit 5

Ethics and Conflict of interest in Business

Contents

5.1. ETHICS: MEANING, THEORIES OF ETHICS AND ETHICS PRINCIPLES

1. ETHICAL CONCEPTS AND ETHICAL DECISION PROCESS

Ethics definitions

- **Ethics** may be defined as the set of moral principles that distinguish what is right from what is wrong.
- **Ethics** has a twofold objective: it evaluates human practices by calling upon moral standards.
- **Ethics** may give prescriptive advice on how to act morally in a given situation.
- **Ethics**- refers to standards of conduct which are based on moral values that guide people's decisions and behaviors.
- **Ethics**- is a set of principles of right conduct or a system of moral principles.

> "It's not doing things
> right,
> but doing the right things. "

What is business ethics?

Business ethics can be defined as the principles, norms and standards that guide an organization's conduct of its activities, internal relations and interactions with external stakeholders. They form the moral framework of the organization. Business ethics are most simply described as: a process of promoting moral principles and standards that guide business behaviour.
Business ethics help firms decide what actions are right or wrong in certain circumstances.

Good ethics is good business

- Improve financial performance
- Reduce operating costs
- Enhance corporate reputation
- Increase ability to attract and retain employees

THE FOUR ETHICAL PRINCIPLES AND THREORIES
PRINCIPLES

- **Beneficence -** doing good. We have an obligation to bring about good in all our actions. The duty to do and to maximize good Corollary principle: take positive steps to prevent harm.
- **Non-maleficence -** not doing harm. "Primum Non Nocere First, do no harm." – Hippocratic Oath. The duty to do no harm or to minimize harm in pursuing a greater good Corollary principle: It is wrong to waste resources that could be used for good.
- **Justice -** fairness (distributive justice). We have an obligation to provide others with whatever they are owed or deserve. We have an obligation to treat all people equally, fairly and impartially. Corollary principle: Impose no unfair burdens.
- **Respect for autonomy -** decision should be informed, competent, not coerced. Respect for autonomy is Latin for "self-rule. This is also called the principle of Human Dignity We have an obligation to respect the autonomy of other persons, which is to respect the decisions made by other people concerning their own Corollary Principles: Honesty in our dealings with others and obligation to keep promises.

Combining Beneficence and Non-maleficence where harm cannot be avoided, we are obligated to minimize the harm we do. Each action must produce more good than harm. We must be clear about risk and probability when we make our assessments of harm and benefit

ETHICAL THEORIES

Deontology

The deontological class of ethical theories states that people should adhere to their obligations and duties when engaged in decision making when ethics are in play. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct.

Utilitarianism

Utilitarian ethical theories are based on one's ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the one that is ethically correct. There are two types of utilitarianism, act utilitarianism and rule utilitarianism. Act utilitarianism subscribes precisely to the definition of utilitarianism—a person performs the acts that benefit the most people, regardless of personal feelings or the societal constraints such as laws. Rule utilitarianism takes into account the law and is concerned with fairness. A rule utilitarian seeks to benefit the most people but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values justice and includes beneficence at the same time.

Rights

In ethical theories based on rights, the rights established by a society are protected and given the highest priority. Rights are considered to be ethically correct and valid since a large population endorses them. Individuals may also bestow rights upon others if they have the ability and resources to do so.

Virtue

The virtue ethical theory judges a person by his/her character rather than by an action that may deviate from his/her normal behavior. It takes the person's morals, reputation, and motivation into account when rating an unusual and irregular behavior that is considered unethical.

IMPORTANCE OF ETHICS TO THE ORGANIZATION

- Ethic is the cornerstone of corporate governance
- Ethic ensures the sustainability of a business
- Good corporate reputation is built on a solid foundation of ethical culture
- Ethics play a major role in the prevention of fraud. Fraud prevention becomes a shared responsibility among the members of the organization.

A culture of trust must be built on a corporate framework of ethical principles which are transparency/ openness, competence, integrity and benevolence.

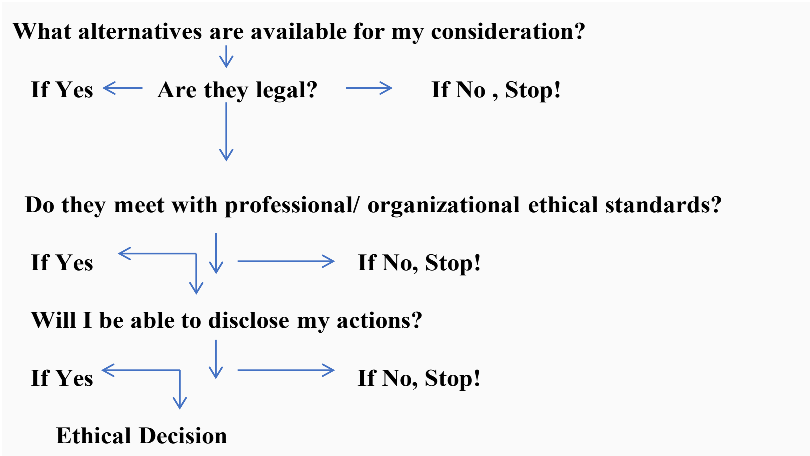
ETHICS – DRIVER FOR CORPORATE GOVERNANCE

- Ethical Decision Making Process

Before making an ethical decision the following questions should be answered:

- What alternatives are available for my consideration?
- Are the alternatives legal?
- Do the alternatives meet with professional/ organizational ethical standards?
- Will I be able to disclose my actions?

Ethical Decision Making Tool



Steps of Ethical decisions process

Step One: Describe the Problem

Consider the nature of the problem and any signs of the problem and ensure that you're attempting to solve the issue and not just its signs. Circumstances affect the problem definition (for whom does the problem exist? What is the surroundings?) **Some initial analysis has to happen for leaders to truly understand where they need to bring in ethical principles**. Leaders need to decide why an ethical decision needs to be made and the outcomes that are desired for the decision.

Step Two: Identify the Required Information

You don't know what you don't know. List the information you will need to obtain in order to make an informed decision. Similarly, identify any assumptions being made about the specific ethical dilemma or challenge. A situation can change dramatically once all the facts are known, and making a decision based on incomplete information can be a pathway to disaster.

- Do you have all the known facts?
- Do you understand the applicable laws or legalities?
- Do you have all relevant policies available to review?
- Are you clear about the individual's views and personal values?

Step three: Consult Resources and seek Assistance

Leaders then need to work on developing a strategy using the resources and people around them. Whether it be qualified co-workers, HR professionals, or policies and handbooks set long ago, leaders need to gain clarity from other sources when creating a strategy to tackle the issue.

Step four: Think about the lasting Effects

While identifying the problem and seeking viable resources to help is the way to go, any advice for how to handle an issue should be filtered through the lens of how it will affect others. For instance, if there is an issue with employees getting to work on time, managers could install policies that change the time workers report, but if they are not careful, it may have a detrimental impact on other workers, and even clients.

Step five: Review Any Applicable Code of Ethics of your organization

- Look for the following:
    - mission statement
    - values base of the organization
    - ethical principles to guide practice
    - ethical standards
- Codes can be revised or updated as needed

Step six: Consider regulations in other industries
Regulations and standards that other companies have established can be a good starting point for developing ethical strategies. Leaders should take a look at how they handle specific issues that have come their way. It might also be helpful to take a look at the mistakes the leader's company and other organizations have made and learn from them. Everyone does not always get it right 100 percent of the time. Therefore, it is essential to see the good and bad side to become even more informed about a decision that should be made.

Step seven: Determine the Options
After consulting others and doing a bit of extra research, it is time for a final decision. Since the choice will likely impact many it is a good idea to create a proposal of what the issue is and how leaders plan to work with the team to solve it. If the problem is more personal and involves harassment of some kind, it is more appropriate to only deal with those involved and establish a plan of action to handle that particular situation. However, for widespread ethical issues that have become a problem in the workplace, it is a good practice to bring decisions to the team at large.

At this stage, begin looking in detail at potential resolutions and their likely outcomes. This is also an appropriate time to seek counsel from people with knowledge and expertise in relevant areas. Consider creative options that go beyond simple answers.

- List all possible actionable options
- Weigh the cost/benefits of each option
- Seek out additional points of view
- Remove the least desirable option.
- Remove any which you cannot put into action.
- Remove any options which break the values systems of those affected.
- Recognize that your final choice will be impacted by your personal values.

Step eight: Implement and Evaluate
"Simply choosing a course of action is not enough," Potchen said. "It must be implemented. Who is going to take the action and when? What follow up will there be?"

This is where talk meets action. It is easy for people to research and create solutions to a problem, but when dealing with morality and ethics, it can be challenging to put it into action finally. No one benefits from a plan that is not put into practice, so at some point, leaders need to facilitate the implementation of the ethical decision. Also, the application is not enough. Evaluation allows everyone to see how the approach is working out, and if there were some unintended consequences leaders did not foresee. Is the problem finally fixed? Did things get better or worse? Analysis of this issue can help those involved figure out if the implementation was the appropriate response.

What are the projected outcomes for each potential resolution in terms of cost, legality, and impact? For example, how would your actions as a business leader be viewed if they became public? Would a customer or corporate partner still want to do business with a company that made this decision? What would an industry governing board say?

- Think about the outcomes with a sense that you have truly approached this ethical dilemma or challenge with the best of intentions and to the best of your ability.
- Evaluate the cost for each person involved (client, family members, co-workers, agency, etc.)
- Consider submitting your most difficult cases to an ethics review board for feedback

DEVELOPING AN EFFECTIVE ETHICS PROGRAMS

Why Do Companies Develop Ethics Programs?

- To allow employees and stakeholders to understand the values of the business
- To help sensitize employees to the potential legal and ethical issues within their work environments
- To help ensure that all employees understand the organization's values and comply with the policies and codes of conduct that create its ethical climate
- To create the ethical climate of the business
- To help to ensure that employees will know how to behave when entering an organization
- To create TRUST

An Effective Ethics Program

- Code of ethics
- Ethics compliance program
- Monitor, audit, and report misconduct
- Training
- Enforcement
- Continuous improvement program

Values or Compliance Programs?

- Compliance orientation
    - Legal terms, statutes, contracts, rules, and penalties

Values orientation

- Develop shared values
- Focus on the abstract
- Teach to aspire to ethical behavior instead of coercion

Seven Steps for Developing an Effective Compliance and Ethics Program

(1) Standards and Procedures: A company must establish standards and procedures to prevent and detect criminal conduct, and communicate them effectively. At bottom, this is a common sense requirement: if a company expects its employees to do the right thing, it needs to communicate, through standards and procedures, what the right thing is and how it can be accomplished. It is equally important to communicate this information to employees in a concise, practical fashion, rather than through cumbersome legalese.

(2) Leadership and Oversight: A company must give a specific senior executive or committee of executives overall responsibility for the compliance program. However, a company's "governing authority" — typically its board of directors — must oversee its implementation. In addition, all management, not just those with direct oversight of the program, must understand the company's policies relevant to their business unit and ensure that employees under their management understand and follow those procedures.

(3) Individuals with Substantial Authority in the Company Cannot Have a Propensity to Act Criminally or Unethically: A company must use "reasonable efforts" not to give individuals who have engaged in illegal activity or other conduct inconsistent with an effective compliance program a role in senior management or supervisory authority over the program (e.g., as a manufacturing plant or sales manager). This does not impose an absolute bar hiring individuals with a history of misconduct in positions of responsibility. Yet, when making hiring decisions, a company should consider the degree to which an individual's record of misconduct relates to the individual's anticipated responsibilities.

(4) Communication and Effective Training: A company's compliance program cannot merely look strong on paper. The company must effectively implement the program through education and training. In the retail industry, training for many employees may need to cover topics such as confidential information, proper accounting, organizational property, gifts and favors, fair labor standards, unfair trade practices, rules, sexual harassment, outside employment, and reporting. Training should not merely recite the law, but should explicitly explain the company's policies and ask employees to think through complex "gray areas" they may encounter in their day-to-day tasks.

(5) Monitoring, Auditing, and Disclosure: A company must audit its compliance program to make sure its elements are actually being implemented and periodically evaluate the program's effectiveness. For example, auditors may ask employees what they perceive as the "unwritten rules" within the company to determine whether the compliance program's goals match its actual operation.
Separately, a company must provide employees with effective mechanisms through which to anonymously or confidentially report potential misconduct or seek guidance on compliance issues, protect such individuals against retaliation, and adequately follow up on their reports.

(6) Discipline and Incentives: A company must provide appropriate incentives to encourage employees to comply with the program and impose appropriate disciplinary measures when employees fail to do so.
It is important for the company to enforce these rules consistently to maintain the credibility of the program.

(7) Corrective Action: A company must address misconduct after it occurs — including, at times, self-reporting to the authorities — and must take reasonable steps to prevent similar misconduct in the future. In addition, a company's Board or Audit Committee must receive regular and meaningful reports on audit results and the status of corrective action.

Finally, once these seven elements are in place, the program must be periodically reassessed and modified to ensure that it is kept current and effective.

Common Mistakes in Designing and Implementing an Ethics Program

- Developing materials that do not address the average employees
- Designing an ethics program with a few lectures or cases

- Taking a legalistic approach
- Not recognizing the need for a program
- Not setting realistic and measurable program objectives
- Management's failure to take ownership of the ethics program

ETHICAL DECISION MAKING IN GLOBAL BUSINESS

- Ethical decision making is essential to successfully operating a global business
- Some MNCs have created officers/committees to oversee global compliance issues
- Successful implementation of a global ethics program requires extensive employee training
- Global firms must tailor programs to international markets
    - Global ethics is not "one size fits all

Global Culture, Values, and Practices

- Global business is a practice that brings together people from countries that have different cultures, values, laws, and ethical standards.
- Country cultural values are specific to groups, sects, regions, or countries that express actions, behavior, and intent.
- National culture consists of everything in our surroundings that is made by people—both tangible items and intangible things such as concepts and values. Each nation has a distinctive culture and distinctive beliefs about what business activities are acceptable or unethical. Many nations also have distinct subcultures.
- Global common values are shared across most cultures. Although divergent religious values and other aspects of culture can create ethical issues in international business, many cultures share desirable and undesirable common values such as: Integrity, family and community unity, equality, honesty, fidelity, sharing and unselfishness. Undesirable common values: Ignorance, pride, egoism, selfish desires, lust, greed, adultery, theft, deceit, lying, murder, hypocrisy, slander and addiction Undesirable common values

Economic Foundations of Business Ethics

The last economic recession highlighted the fact that firms were taking extreme risks, bending rules, and engaging in unethical activity. A major part of the problem was an excessive focus on rewards and the bottom line that pervaded the global financial industry. Excessive Focus on Profit Extreme Risk Taking Rules Bending Unethical Activities Economic Calamities.

Global Cooparation to Support Responsible Business

The International Monetary Fund emerged from the Bretton Woods agreement of 1944, where a group of leaders decided that the responsibilities for the regulation of monetary relationships among nations should be carried out by an extra-national body. Member states provide funds for IMF through quotas that are proportional to the size of their economies. The IMF makes short-term loans to member countries that have deficits and provides foreign currencies for its members.

Its main function is to regulate monetary relationships between national economies. The organization has also taken steps to promote responsible global business conduct. The concept of risk and IMF bailouts took on significant importance during the last global recession. Because of a massive amount of debt, the European countries of Greece, Ireland, Portugal and Spain required major bailout packages from the IMF.

United Nations Global Compact: is a set of 10 principles that promote human rights, sustainability, and the eradication of corruption.The purpose is to create a collaborative arrangement between businesses, governments, nongovernmental organizations, societies, and the United Nations to overcome challenges and advocate for positive economic, social, and political change.
Businesses that make a commitment to the UN Global Compact are required to annually post the organization's progress toward Global Compact goals, show commitment to UN guiding principles, and cooperate with the UN on social projects within developing nations in which they do business.

The World Trade Organization (WTO) was established in 1995 at the Uruguay round of negotiations of the General Agreement on Tariffs and Trade (GATT). a. It has 159 member and observer nations. The WTO administers its own trade agreements, facilitates future trade negotiations, settles trade disputes, and monitors the trade policies of member nations.
It addresses economic and social issues involving agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards, food sanitation regulations, services, and intellectual property. It provides legally binding ground rules for international commerce and trade policy. The organization attempts to reduce barriers to trade between and within nations, and settle trade disputes.

The WTO rules on trade issues, such as dumping, which is the practice of charging high prices for products in domestic markets while selling the same products in foreign markets at low prices, often at below cost. Ÿ The WTO has not been able to increase global commitment to free trade.

Global Ethics Issues
Important issues in global ethics are:

- Global Risks
- Bribery
- Antitrust Activity
- Internet Security and Privacy
- Human Right
- Health Care
- Labor and Right to Work
- Compensation
- Consumerism

5.2. CONFIDENTIALITY

To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there **is a legal or professional right** or **duty to disclose**, nor use the information for the personal advantage of the professional accountant or third parties.

1. WHY CONFIDENTIALITY IS IMPORTANT

- Confidentiality is important because failure to keep information secure and protected can lead to the loss of a client
- Information could be misused which can result in costly lawsuits
- Disclosure of information can lead to a loss of trust and loyalty. This will result in a loss of productivity.

2. INFORMATION THAT SHOULD BE PROTECTED

- **Employee/Client information-** information that includes personal information such as the clients social security number and address
- **Management Information**-Confidential information that includes discussions, employee relations, and employee misconduct
- **Business Information**-Financial data, and budget plans

3. WHAT STEPS CAN BE TAKEN TO BETTER PROTECT CONFIDENTIAL INFORMATION?

- All confidential documents should be stored in locked file cabinets or rooms accessible only to those who have a business "need-to-know."
- All electronic confidential information should be protected via firewalls, encryption and passwords.
- Employees should clear their desks of any confidential information before going home at the end of the day. Employees should refrain from leaving confidential information visible on their computer monitors when they leave their work stations (Fowlers, 2016).
- All confidential information, whether contained on written documents or electronically, should be marked as "confidential."
- All confidential information should be disposed of properly (e.g., employees should not print out a confidential document and then throw it away without shredding it first.)
- Employees should refrain from discussing confidential information in public places.
- Employees should avoid using e-mail to transmit certain sensitive or controversial information (Fowlers, 2016).

4. CIRCUMSTANCES WHERE DISCLOSURE OF CONFIDENTIAL INFORMATION IS APPROPRIATE

- Disclosure permitted by law and is authorized by the client or employer
- Evidence in legal proceedings
- Public authorities of infringements of the law
- Quality review of a member body or professional body
- Respond to an inquiry or investigation by a member body or regulatory body
- To protect the professional interests of a professional accountant in legal proceedings
- To comply with technical standards and ethical requirements

5. FACTORS TO CONSIDER IN DECIDING WHETHER TO DISCLOSE CONFIDENTIAL INFORMATION

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant.
- When a situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment shall be used in determining the type of disclosure to be made.
- The type of communication that is expected and to whom it is addressed
- Whether the parties to whom the communication is addressed are appropriate recipients.

ICPAR CODE OF ETHICS AND CONFIDENTIALITY

The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

(a)Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b)Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

A professional accountant shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.

A professional accountant shall maintain confidentiality of information disclosed by a prospective client or employer.

A professional accountant shall maintain confidentiality of information within the firm or employing organization.

A professional accountant shall take reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.

The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, the professional accountant is entitled to use prior experience. The professional accountant shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a)Disclosure is permitted by law and is authorized by the client or the employer;
(b)Disclosure is required by law, for example:

- Production of documents or other provision of evidence in the course of legal proceedings; or
- Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(c) There is a professional duty or right to disclose, when not prohibited by law:

- To comply with the quality review of a member body or professional body; To respond to an inquiry or investigation by a member body or regulatory body;
- To protect the professional interests of a professional accountant in legal proceedings; or
- To comply with technical standards and ethics requirements

5.3. PROFESSIONAL JUDGMENT

Professionals make judgements every day as part of their core responsibilities and as a normal part of their everyday work.

Professional Judgement can be defined as: "Applying knowledge, skills and experience, in a way that is also informed by professional standards / knowledge, laws and ethical principles, to develop an opinion or decision about what should be done to best serve clients".

This judgement allows professionals to utilise their understanding of the context of the situation and client / service user, their professional knowledge and their training in order to identify concerns and take relevant action.

When using your professional judgement, you need to be able to provide rationale for the decisions you make and why the referral is high risk.

A professional must be prepared to provide sound, evidence-based rationale to support their decisions. There may be situations where professional judgement can be influenced / impeded by conflicts of interest / personal experience and or boundary issues with the client / service user. If this occurs consult with colleagues / managers for advice and support.

Exercising professional judgment means being accountable for good or adverse client/ service user outcomes. Professionals need to provide evidence-based rationale to support their professional decision making.

1. **THE KEY ASPECTS OF PROFESSIONAL JUDGEMENT**

1.Knowledge

Through academic and practical training professionals develop a unique body of knowledge that lays the foundation for professional judgment. Practical experience further builds knowledge, including exposure to formulating and applying professional judgment. Evidence-based practice also contributes to a professional's knowledge when contemplating the best course of action to exercise their professional judgment.

2.Professional Obligations

All professionals have an obligation to practice safely, competently and ethically. Assessing Risk -This requires a level of competence based on i) appropriate knowledge, skills and judgment; ii) a professional attitude focused on client / service user welfare; and iii) continuously upgrading knowledge, skills and judgment. Professional judgment can be an essential/ key aspect when assessing risk. Ethics -As professional judgment involves making decisions about what should be done to best serve clients/ service users, professional ethics need to be considered. Professional ethics is concerned with determining which behavior (s) reflect professional values, such as integrity, honesty and client-centred decisions.

3.Client Input

When exercising professional judgement, the professional must consider knowledge, professional obligations and experience, but also the specific needs, wants and goals of clients/ service users for client-centred services.

4.Experience

Practical Wisdom -Ongoing experience has a significant influence on professional judgment. Professionals will apply knowledge, skills, values and experiences when using their professional judgement. Not formally taught and learned, practical wisdom is acquired largely through work (paid or unpaid) experience, ongoing learning and informal conversations with respected peers. Practical wisdom and experience help develop and refine professional judgment. Reflective Practice -By critically considering practice, professionals can reflect and evaluate their decisions, weigh alternatives and examine outcomes.

ELEMENTS THAT DETERMINE JUDGEMENT

The following six elements determine whether you, or someone else, has judgement.

1 What you take in

This is a measure of the quality of comprehension in both reading and listening, which requires taking in information but also evaluating, analysing, and putting it into context. Quality of listening and reading includes being perceptive about how things are said and what is not said, for example, areas not covered in an email or a report.

Take, for example, monthly management information reports incorporating both financial and nonfinancial information. There is often dissatisfaction about quality — too much, too difficult to understand — and there is a need to pick up such signals even without colleagues complaining. Knowing what to look for is another part of judgement, such as which variances to follow up on and whether to use any additional nonfinancial measures. These measures may form part of a balanced scorecard, where any additional information has to be weighed against the dangers of excessive complexity. Finally, there is the ability to understand what colleagues need when acting as a business partner.

Three ways to improve include:

- Seeking feedback from a coach or mentor on your listening skills. Test yourself regularly by asking, "So what you are saying is ...", to double-check whether you understood correctly;
- Being aware of any tendencies you have to ignore or suppress inconvenient information; and
- Insisting on clarity in the way information is presented.

2 Whom and what to trust

Management accountants are rightly seen as trustworthy professionals, so it is particularly important that when they use information from others, there are processes in place to know whom and what to trust.

Professional judgement will help to spot techniques such as low-balling in project proposals or setting easily reachable targets.

Three ways to improve include:

- Understanding the perspective and motivation of the person providing the information;
- Making clear that in staff hiring, appraisal, and promotion, good judgement is seen as important; and
- Verifying information through corroboration and comparison.

3 What you know about this

Knowledge has to be combined with judgement in applying management accounting techniques. One example might be deciding whether to apply a technique such as zero-based budgeting to any part of an organisation. Another could be deciding whether a choice of performance comparators is justified. Or there is a decision on the risk of introducing AI to marketing set against the risk of not introducing it.

Experience is a key element in the judgement of how to apply that knowledge, but while experience is rightly valued, it is not enough. It must also involve learning about people, not only processes, systems, and technology. An example here is understanding how colleagues will react to changing market conditions or adverse variances in setting targets and controls. Poor judgement may mean missed deadlines and cost overruns or may result in the organisation running out of cash.

Three ways to improve include:

- Seeking information to question whether analogies and lessons drawn from experience are correct, appropriate, and complete;

- Using mentors and coaches; and
- Gaining additional perspectives by a secondment to another function or location.

4 How you feel about this

Accountants are as prone to bias as any other group, and they need to be aware of what their biases are. Caution is fine, but risk aversion carried to extremes is not.

Keeping to a plan when circumstances have changed (anchoring) is one kind of bias. Using an inappropriate analogy (representativeness) is another. Seeing what we want to see (confirmation) is a third. Or it may just be strong preferences, as when it is tempting to prefer performance measures that are quantifiable. Pushing for quantification, which is designed to reduce bias, when quantification may not be appropriate may itself be an expression of bias.

Three ways to improve include:

- Training in understanding the common forms of bias;
- Having greater awareness of your own biases, including your risk tolerance or risk appetite; and
- Welcoming diverse views and perspectives to meetings and discussions.

5 How you choose

There are many sources on the mechanics of decision-taking, but it will be the management accountant's professional judgement through experience, knowledge, and personal qualities that come together to formulate and present the choice. This includes recognising whether choices have been appropriately framed, whether certain alternatives (including more radical options) have been excluded, and whether risk has been appropriately considered.

Judgement is needed at every level of decision-making. The basis of cost allocation, for example, will normally be a logical connection — time spent, numbers of people involved, volume, etc. For expenditure without such a connection — research and development or product-range marketing — the question may be whether to use activity-based costing and/or take into account wider implications, such as the effect on incentives. With a new transfer-pricing system, the effects on internal motivation will need to be considered if the organisation is profit-centre-based.

Judgement is also central to financial reporting and then the audit — assumptions based on forecasts and probabilities have to be made about all key elements of the balance sheet and profit and loss account. Conspicuous among these are decisions about writing off goodwill, capitalising costs, depreciation rates, revenue recognition, and bad debt provisions.

Three ways to improve include:

- Training in advanced decision analysis, for example, risk assessment and scenario building;
- Recognising problems and learning to deal with problem conditions for choices, such as time pressure, or high emotions such as anger; and
- Clearly presenting choices, particularly of qualitative elements.

6 How you implement it

A choice is not the end of the story — successful implementation is also part of good judgement. Increasing the frequency of management reporting, for example, comes with the potential trade-off that an early closing may affect the quality of the figures. In implementation, too, there are often risk management issues, such as new IT applications, which can lead to great ideas in principle not being delivered in practice, or projects that run late and over budget.

Three ways to improve include:

- Identifying reasons for past problems in implementing plans (especially projects);
- Training using cases to improve the probabilities of success in implementation; and
- Using pre-mortems to anticipate the implications and risks of variations from plan.

(Timing issues will need to be addressed as part of elements five and six. An example would be whether to undertake more work to verify information on a project proposal. Risk assessment will form part of elements two, four, five, and six.)

MORALITY, ETHICS AND VALUES

1. THE MEANING OF ETHICS AND MORALS

When narrowly defined according to its original use, ethics is a branch of philosophy that used to study ideal human behavior and ideal ways of being. As a philosophical discipline of study, ethics is a systematic approach to under-standing, analyzing, and distinguishing matters of right and wrong, good and bad, and admirable and deplorable as they relate to the well-being of and the relation-ships among sentient beings. Ethical determinations are applied through the use of formal theories, approaches, and codes of conduct, such as codes that are developed for professions and religions.
As contrasted with ethics, morals are specific beliefs, behaviors, and ways of being derived from doing ethics. One's morals are judged to be good or bad through systematic ethical analysis. Amoral is a term used to refer to actions that can normally be judged as moral or immoral, but are done with a lack of concern for good behavior.

WHAT ARE VALUES?

Moral values

Moral values refers to people's fund a mental beliefs regarding what is right or wrong, good or bad.

Personal value

Personal values are your own convictions as a person about what is good, acceptable and desirable. Your values are your core values as an individual.
Assuming that you enter into a retail shop to buy a few groceries for the week. You pay for the items at the till, and you leave the retail shop. However, as you are about to enter into your car at the parking lot, you checked the change the till attendant gave you, and you realize you have been given thirty rand (R30) more than you are entitled to. What will you do?

Values in Organizations

Strategic values **Work values** **Ethical values**

Strategic value: are related to the most important general aspects of the organization and are values which focus on long term achievement
Work values: are values that use by individual or a group for a specific occupation or a job. Are value a person considers importance in a work setting (self-respect, respect of others, success etc)

Ethical values: are principles to guide employees on actions which are best to do or to describe the significance of different actions (honest, integrity, fairness)

Professional values

Professional values should be:

- Central to practice.
- They are what we believe in and place value on.
- Help us decide on a particular course of action.
- Need to be actively implemented within our practice.
- The adopting of, commitment to and acting upon appropriate values is central to good practice.

Professional Ethics	A profession is a typical example of a group of people who adhere to a set of ethical standards.
Professional Virtues	A virtue is a trait that intuitively enables one to do what is right. Professional virtues are those character traits which members of a profession are expected to have, for example, virtues of an auditor are independence, integrity and objectivity

The Role of professional Values

- No one value base is shared by all the professionals.
- Value base of ALL professions have their own set of "informal" rules and meanings, deriving from the sub-cultures within the organization.
- The professional's self-image reflects the value base of the organization in which they work.
- The professional value base of the organization gives that organization its professional identity.

VALUES, MORALITY AND MORAL REASONING

Because ethics falls within the abstract discipline of philosophy, ethics involves many different perspectives of what people value as meaningful and good in their lives. A value is something of worth or something that is highly regarded. Values refer to one's evaluative judgments about what one believes is good or what makes something desirable. The things that people esteem as "good" influence how personal character develops and how people think and subsequently behave. Professional values are outlined in professional codes.

Reasoning is the use of abstract thought processes to think creatively, to answer questions, to solve problems, and to formulate strategies for one's actions and desired ways of being. When people participate in reasoning, they do not merely accept the unexamined beliefs and ideas of other people. Reasoning involves thinking for oneself to determine if one's conclusions are based on good or logical foundations. More specifically, moral reasoning pertains to reasoning focused on moral or ethical issues.

Morality involves moral reasoning, moral judgement, moral decision making and moral behavior or moral action. Moral reasoning helps one to make right moral judgements and thus exhibit morally acceptable behaviour.

Morality is inherent in the psyche of every individual which is influenced by various internal personality characteristics and external social factors. Although every individual has the faculty of moral reasoning, there may be situations where the individual makes wrong moral judgement or opt to be dishonest to his/her own moral judgement. Exercising of moral behavior and action depends upon the moral integrity with which an individual chooses to act or not act morally.

4. ETHICS AND MORALITY

The two words ethics and morality are very closely associated and therefore their vocabulary usage may be frequently confused. Let, it be clearly understood that while ethics conform to code of behavior with regards to a group such as family, community or professional place; morals are more personalized in their definition. Ethics structure a social system or a philosophy wherein the morals are applicable. Morality is a social phenomenon. Morality, however, is more of a personalized code of conduct. It pertains to one‟s individual conscience or beliefs of what is true and what is cross. Morals assist in leading a disciplined or worthy life. Ethics is thus the sphere of ideal forms of life set by individuals for themselves. It encompasses the tripartite relation between:

- the values that individuals, as conscientious and responsible human beings, set to themselves,
- the moral norms governing a society which reflects a social balance and choice between conflicting individuals and
- the legal order, which must reflect the current social morality but it is far from identical with it (Vasantha Kumar, 2012).

5.5 THE CONCEPTS AND PRINCIPLES OF THE ICPAR CODE OF ETHICS AND THE IFAC CODE OF ETHICS

International Federational of Accountants (IFAC)

The IFAC Board has established the International Ethics Standards Board for Accountants (IESBA) to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.

The *Code of Ethics for Professional Accountants* (IESBA Code) establishes ethical requirements for professional accountants. A member body of IFAC or firm shall not apply less stringent standards than those stated in this Code.

A professional accountant in acting in the public interest shall observe and comply with this Code**. The code contains 3 parts**:-

Part A – establishes the **fundamental principles** of professional ethics for professional accountants.

Parts B & C – provide a conceptual framework that professional accountants shall apply to:

- Identify **Threats**
- Evaluate **Threats**
- Apply **Safeguards**

Part B – applies to professional accountants in *public practice*

Part C – applies to professional accountants in *business*

ICPAR code of ethics is based on the principles of the IFAC code of ethics as are other professional accountancy bodies around the globe.

Foundational Principles

A professional accountant shall comply with the following fundamental principles:-

- **Integrity –** To be straightforward and honest in all professional and business relationships.
- **Objectivity –** To not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- **Professional Competence and Due Care –** to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and
- techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality –** To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional Behaviour –** To comply with relevant laws and regulations and avoid any action that discredits the profession.

Synopsis of Fundamental Principles

Integrity

Integrity implies fair dealing and truthfulness.

A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:-

- Contains a materially false or misleading statement
- Contains statements or information furnished recklessly
- Omits or obscures information required to be included where such omission or obscurity would be misleading

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

Objectivity

A professional accountant may be exposed to situations that may impair objectivity.

A professional accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect of that service.

Professional Competence & Due Care

Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. There are 2 phases of professional competence:-

- *Attainment* of professional competence
- *Maintenance* of professional competence

The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

The professional accountant should act in accordance with the requirements of an assignment, *carefully, thoroughly and on a timely basis*. The professional accountant shall take steps to ensure that those working under the professional accountant's authority in a professional capacity have *appropriate training and supervision*.

Where appropriate the professional accountant shall make clients, employers, or other users of the accountant's professional services *aware of the limitations inherent in the services.*

Confidentiality

The professional accountant shall maintain confidentiality, including in a social environment.
A professional accountant shall take reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer.

Professional Behaviour

In marketing and promoting themselves and their work, professional accountants shall not bring the profession to disrepute. Professional accountants shall be honest and truthful and not:-

- Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained
- Make disparaging references or unsubstantiated comparisons to the work of others

5.6. DISCIPLINARY PROCEDURES OF ICPAR AND THE CONSEQUENCES OF A BREACH OF THE REGULATIONS.

1. INTRODUCTION

Regulatory professional bodies take complaints seriously and will deal with them fully. You may find that you need advice about particular circumstances, or you may not be sure if you have sufficient grounds on which to complain. You should telephone, write to the Secretary. You will be given advice.

All complaints should be made in writing. The complaint should detail the pertinent issues as comprehensively as possible and where possible important copy documentation should be provided.

Types of Complaint

Complaints can be made where for example or member of a regulatory professional body has been guilty of a breach of professional conduct i.e. a breach of the *Fundamental Principles.*

Investigation & Discipline

An Investigation Committee will use evidence (such as statements, letters, documentation and accounts) to form a view. Investigations are detailed and are designed to get to the core of the matter. Investigations will frequently involve meetings with several parties and in- depth reviews of documentation. The volume and complexity of the evidence have a direct bearing on the length of time required to properly investigate a complaint.

The Investigation Committee discusses all the evidence and communicates its opinion, both to the complainer and member has been guilty of misconduct or of bringing himself or herself, the Institute, or the accountancy profession into disrepute. It the complaint is *not made out*, the complaint will be dismissed the complainer and the member will be informed in writing.

Where the complaint *is made out*, the Investigation Committee will decide if the conduct of the member was disgraceful to such an extent that disciplinary action is required against the member.

The Committee may decide that disciplinary action is unnecessary if, in all the circumstances, the case is not serious, or if there is some other compelling reason. In the remainder of cases it will take action by prosecuting a formal complaint.

Prior to Investigation Committee's complaint being upheld, the Disciplinary Committee must be satisfied that the member is guilty of the conduct complained of. If it finds the complaint proven, it will impose a sanction against the member which, according to the seriousness of the breach of professional conduct, will range from ***reprimand*** to ***exclusion from membership*** and ***may include a fine***.

Liability of Member Firms to Disciplinary Action

A member firm will be liable to disciplinary action in circumstances as follows:-

- Member firm has been guilty of misconduct whilst discharging its professional duties or otherwise
- Member firm has performed its professional duties or conducted its practice inefficiently or incompetently to such an extent that as to bring discredit to itself, the Institute or the accountancy profession
- Member firm has failed or neglected to respond adequately or at all to correspondence or other communication from an officer, the Secretary or an employee of the Institute or any person acting on behalf of any committee of the Institute or failed to co-operate
- fully with an enquiry or investigation being conducted by or on behalf of the Institute
- Member firm has failed to satisfy a judgment debt in any jurisdiction
- Member firm has before a Court pleaded guilty or has been found guilty of any offence involving violence or indecency, drug trafficking, money laundering, tax evasion, breach of companies legislation or complicity of any such offences or has in
- any criminal proceedings been found to have acted fraudulently or dishonesty, it should be presumed, unless to the contrary that such conviction or finding constitutes proof of misconduct

Duties of the Secretary in Disciplinary Proceedings

The secretary should ensure that:-

- A copy of the Complaint is sent to the Member, Audit Affiliate, Student or Member
- Firm concerned with a request for a response within a two week period.
- Receipt of the Complaint is acknowledged to the Complainant where applicable. He has been advised that a copy of the Complaint has been sent to the Member, Audit Affiliate, Student or Member Firm and that a copy of a response from the Member, Audit Affiliate, Student or Member Firm will be forwarded to him when received.
- When a response is received, a copy of it is sent to the Complainant. The Complainant may be requested, or he may wish, to respond to the response of the Member, Audit Affiliate, Student or Member Firm.

PRECEDENT BOOK

The Institute should establish and maintain a Precedent Book. The Institute should appoint a person who is an employee of the Institute to establish and maintain the Precedent Book.

The Precedent Book should record all Investigation Committee, Disciplinary Tribunal and Appeal Tribunal decisions and sanctions imposed.

The Precedent Book may be used by members of all Investigation Committees, Disciplinary Tribunals and Appeal Tribunals as a reference when dealing with Complaints, Formal Complaints or Appeals.

GENERAL

In situations where there are disciplinary proceedings (e.g. Disciplinary Tribunal) the Respondent should submit to the Secretary all relevant certificates, licenses and authorisations affected by the Order.

CONFIDENTIALITY

The Secretary, Special Investigator, Independent Reviewer, Investigation Committee, Disciplinary Committee, Disciplinary Tribunal have the absolute authority not to provide certain information and/or documentation (including written responses from a Respondent) to a Complainant if he or it deems it appropriate.

RESIGNATION DURING THE DISCIPLINARY PROCESS

In the event of a Member, Firm, Affiliated Partner or Student resigning during the course of any disciplinary process or prior to the commencement of any disciplinary process but where a Complaint has been made then the Institute may publish a statement that such a resignation has taken place together with a statement as to the existence of the complaint and/or a statement of fact that the disciplinary process was on-going prior to the resignation. In any such statement the Member, Firm, Affiliate Partner or Student should be named. In the event of such a resignation details will also be recorded in the registrar of findings naming the Member, Firm, Affiliated Partner or Student.

THE ETHICAL OBLIGATIONS UPON A PERSON DEALING WITH FINANCIAL INFORMATION, PRODUCTS AND SERVICES.

1. PROFFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICES

A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession.

Threats & Safeguards

When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into the following categories:-

Self – Interest Threat – The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour.

- E.g.: the improper use of corporate assets or where an accountancy firm has an undue dependence on one particular client's fees or enters into a joint venture.

Self – Review Threat – The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service.

- E.g.: providing a service for a client that relies on previous results that the individual, firm or another professional carried out – if this situation arises such results should be double checked before proceeding.

Advocacy Threat – The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.

- E.g.: When a professional accountant promotes an organizations position with misleading and factually incorrect statements, or where you inappropriately promote shares of a client that you are auditing.

Familiarity Threat – The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.

- E.g. becoming too sympathetic to the client's needs and losing objectivity.

Intimidation Threat – The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

- E.g... Where an individual or firm is placed under pressure to act in a certain way or feels threatened by a client, employer or third party if they do not produce the results they expect.

Safeguards
Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:-

- Safeguards created by the profession, legislation or regulation
- Safeguards in the work environment

E.g. Safeguards created by the profession, legislation or regulation include:

- Educational, training and experience requirements for entry into the profession
- Continuing professional development requirements
- Corporate Governance regulations
- Professional Standards
- Professional or regulatory monitoring and disciplinary procedures
- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

E.g. Safeguards in the work environment

- Leadership of the firm that stresses the importance of compliance with the
- fundamental principles
- Policies and procedures to implement and monitor quality control of engagements
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Having a professional accountant who was not involved with the non- assurance service review the non-assurance work performed or otherwise advise as necessary.

- Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged
- Rotating senior assurance team personnel.

Professional Appointment
A professional accountant in public practice before accepting a specific client engagement shall determine whether acceptance would create any threats to compliance with the *fundamental principles*.
E.g. Professional Competence & Due Care – the engagement team does not possess the competencies necessary to properly carry out the engagement.

The professional accountant shall evaluate the significance of threats and apply safeguards, to eliminate them or reduce them to an acceptable level.

Possible safeguards:-

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the
- purpose, nature and scope of the work to be performed
- Acquiring knowledge of relevant industries or subject matters
- Possessing or obtaining experience with relevant regulatory or reporting requirements
- Assigning sufficient staff with the necessary competencies
- Using experts where necessary – consider: reputation, expertise, professional and ethical standards
- Agreeing a realistic timeframe for the performance of the engagement
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

The professional accountant should decline the engagement is threats cannot be eliminated or reduced to an acceptable level through the application of safeguards.

5.8. THE ETHICAL OBLIGATIONS OF COMPANY DIRECTORS AND AUDITORS.

Directors duties
Company directors' responsibilities are wide and diverse. Their duties arise primarily from:-

- Statute Legislation
- Company Law

Directors duties include:-

- Exercising their powers in good faith and in the interests of the company as a whole
- Not allowed to make an undisclosed profit from their position as directors
- Carrying out their functions with due care, skill and diligence
- Maintaining proper books of account
- Preparing annual accounts
- Maintaining certain registrars and other documents
- Filing certain documents with the Office of the Registrar General (ORG)
- Disclosure of certain personal information
- Convening at general meetings of the company
- Transactions with the company
- Assume responsibility of leadership and control of the corporate
- Direct and supervise the corporate's affairs
- Make decisions in the interests of the corporate

Auditor's duties
Auditors duties include:-

- **Duty to provide an Audit Report** – report to the members of the company on the financial statements examined by them. The auditors' report must be read at the general meeting and should be made available to every member of the company.
- **Duty to report failure to maintain proper books of account** – where auditors form the opinion that the company being audited is disobeying, or has disobeyed its obligations to maintain proper books of account, they are obliged to serve notice on the company informing it of that opinion. The auditors may report this to the Office of the Registrar General (ORG)
- **Duty to exercise Professional Integrity** – Auditor is under a duty to carry out the audit with professional integrity. In preparing their report, they must exercise skill, car and caution of a reasonably competent, careful and cautious auditor.

5.9. CORPORATE SOCIAL RESPONSIBILITIES

1. INTRODUCTION

During this century there has been much change in what society expects of its institutions and in what manager regards as the proper roles in organization. This change has gradually developed into a new concept of corporate social responsibility. Increasingly many managers are adopting the view that besides the obligations they have to their organizations, they have a personal responsibility to the society. Managers are increasingly being held accountable for the social effects of their actions. The questions however remain of where such social responsibility begins and where it ends. For example:

- Should managers place the interest of stockholders before those of society or environment?
- Should a company be responsible for the social consequences of its operations e.g. when drunken husbands assault their wives should Kenya Breweries be held accountable?
- What does the company owe to its employees, suppliers, customers and the community?
- Should a company contribute to the welfare of society? E.g. pay fees for destitute children or repair roads?

Such are the questions that arise when corporate social responsibility is considered.

2. CORPORATE SOCIAL RESPONSIBILITY MEANING

The issue of corporate social responsibility has been debated for many years and yet it has not yet clearly been defined. But from the various arguments certain things can be said about social responsibility.

- It deals with corporate conduct in respect to the broader societal values.
- It questions the responsibilities of business to the entire society.
- It is the interaction between business and the social environment in which it exists.

Despite the lack of an accepted theory or corporate social responsibility it is obvious that CSR draws on the fields of ethics and morals which are basic to most cultures. Should corporate actions benefit society or merely not harm society?

- Ethics is the discipline dealing with what is right or wrong or what is good or bad.
- Morals imply the practice of right conduct.

Corporate social responsibility may therefore refer to the moral and ethical content of managerial and corporate decisions. i.e the values used in business decision making over and above the requirement of the law and market economy.
Closely related to social responsibility is the concept of social responsiveness which simply means the ability of a corporation to relate its operations and policies to the social environment in ways that are mutually beneficial to the economy and the society.

The difference between social responsibility and social responsiveness is that the latter implies actions and the 'how' of enterprise responses.

Business organizations do not operate in a vacuum but have to constantly interact with society. A business organization is a part of society. It interacts **at a primary level** with groups such as employees, distributors, consumers, stockholders, banks, suppliers and competitors. **At a secondary level** it interacts with such institutions as governments, local communities, media social pressure groups, business support groups and the general public.
With all these interactions business cannot afford to go on with their businesses without responding to issues affecting these groups. Some people argue that there is no such thing as corporate social responsibility, others argue that CSR must and will eventually result in long run profits, while others feel that modern organizations must undertake social responsibility regardless of the profit. Whatever the argument the question of accountability arises!

3. AREAS OF CORPORATE ACCOUNTABILITY

To Who Or To What

The question arises to who corporations should be accountable: Two areas of corporate accountability exist:
a) Conventionally

- Management is professional responsible to the board of directors
- The directors run the corporation for the shareholders.
- The shareholders provide the capital to their corporation and for their investment they expect a fair financial return.
- But through separation of ownership and control shareholders do not run the company.
- By implication therefore management has the responsibility to ensure that the shareholders receive an adequate return.

b) Broadly and more modern view

Corporations should be accountable to employees, customers, suppliers, the state etc. (i.e. to forces external to it but which are of value to it).

LEVELS OF SOCIAL RESPONSIBILITY

From these external forces, the corporation draws its existence how then can it operate regardless of them. CSR involves decisions – the corporation world is decision oriented and corporations have an impact on society through these decisions. CSR therefore raises the question of rightfulness of decisions and further of which decisions are more right. So social responsibility goes beyond short run profitability, merely meeting minimum legal and market directives does not constitute social responsibility. CSR is very subjective in nature and is influenced by the economic and social system within which it operates. For example benefits from social responsibility do not directly accrue to the firm making he expenditure on social responsibility. CSR is hence a system holding that the corporation should respond to the moral and ethical values of society within which it is licensed and which it serves. A given corporation will draw from and shape the values of the society form which it draws its existence. CSR tries to fuse social values with profit maximization goals.

The following are four levels of social responsibility:

Source: Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons* (July–August 1991): 42, Figure 3.

Figure 2.1. Levels of social responsibility

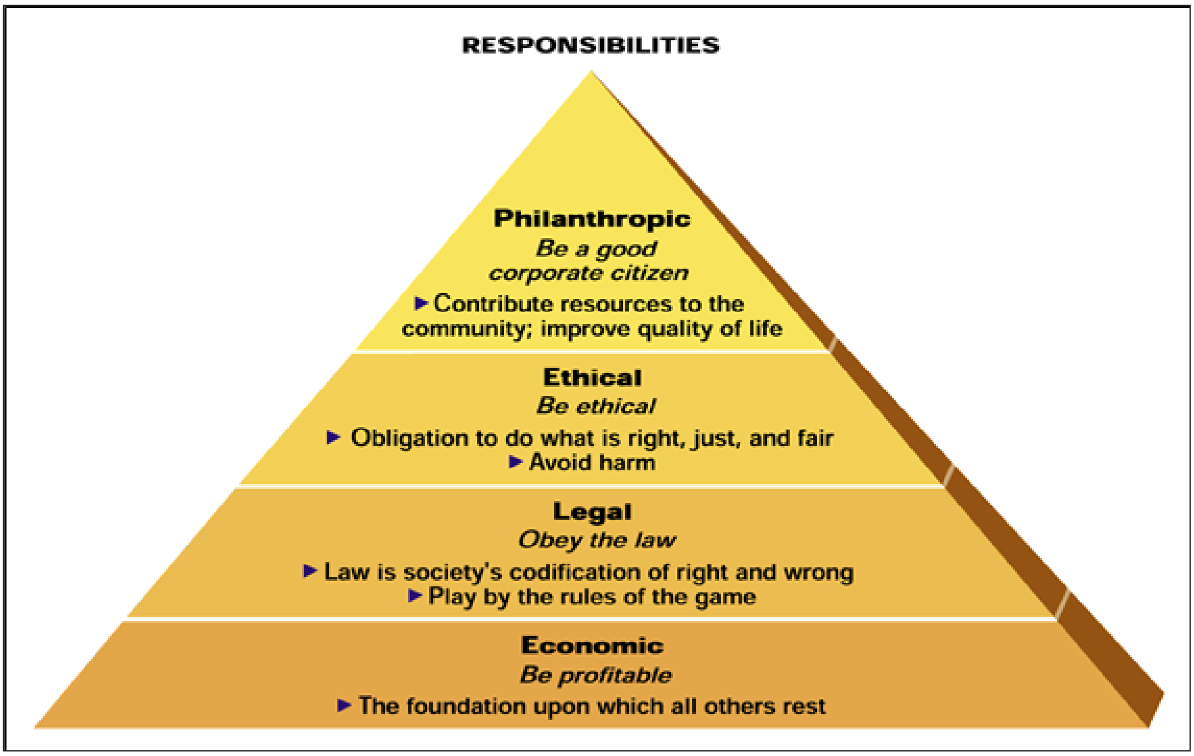


Figure 2.2. Levels of social responsibility

ARGUMENTS FOR AND AGAINST SOCIAL RESPONSIBILITY

The debate on the proper role of business organizations in society is far from over, some argue for and others against SR.

FOR

- Like individuals corporations are citizens so they should contribute to society.
- Since businesses create some problems they should solve them.
- Organizations have enough resources to help society.
- Businesses, government and the general public are partners in society.
- Businesses owes society for supply of resources.
- Benefits from SR will finally accrue to the business.

AGAINST

- SR will decrease profits thus contradicting the real reason for firms' existence
- Social responsibility gives corporations too much power.
- Corporations are not accountable for the results of their actions.
- Corporations may lack the necessary expertise to be socially responsible.
- Conflicts of how money set aside for social responsibility should be used, could arise.

6. AREAS OF SOCIAL RESPONSIBILITY

a) Business giving

- giving gifts and donations
- supporting artistic activities

b) Ecology and environmental quality

- clean up existing pollution
- start process to reduce pollution
- noise control
- aesthetic improvements
- recycling etc.

c) Consumerism

- truth in advertising pricing lending guarantees and warranties
- control of harmful products
- truth in quantities and quality
- response to consumer complaints.

d) Community needs

- reduction of poverty
- improvement of health care and education
- social amenities eg. roads, schools , etc.

e) Government relations

- restrictions on lobbying
- control of business political action
- restrictions on international relations
- tax remittances

f) Minorities/Disadvantaged persons

- vocational training
- equal employment rights
- programs for alcoholics and drug addicts
- employment of physically handicapped
- start of industries in marginal areas
- equal pay for equal work
- promotion on merit

g) Labour relations

- improvement of health and safety at work
- expansion of employee rights
- freedom of participations in company affairs
- care for employee families

h) Stockholder relations

- full financial disclosures
- disclosure on activities affecting environment
- selection of board members from various interest groups

- non-participation in apartheid regimes or states
- full disclosure on business health
- protection of investments

Patterns of Response to Social Demands

There are three strategic approaches that organizations may take to respond to social demand

- Adoptive strategy
- Pro-active strategy and
- Interactive strategy

i. Adoptive Strategy

This involves changing only when you are forced to do so by the society. This is, complying with the law. The law gives business a general guideline of what is expected by a society. Legal compliance is the minimum that is expected by a society.

Organizations that use this strategy adopt or react to the environment only when there is strong outside pressure, eg. producers of body perfumes have to be ozone friendly.

ii. Pro-active/Voluntary Strategy

Involves an attempt at shaping the environment. The company using this strategy tries to manipulate the environment in ways that will be to their advantage. The steps they take may or may not be to the interest of the society in the long run, eg. paying off politicians to avoid scrutiny.

iii. Interactive Strategy

When a company is able to anticipate environmental changes and blend its own goals with those of the society, then it is said to have taken an interactive strategy. This involves reducing the gap between public expectations and business performance. This calls for knowhow and skills on how to manage the company's social relations with external forces which may affect the company. That is the firm tries to interact with the surrounding social environment in ways that will be mutually beneficial.

Proposed Areas of Social Involvement by Business

Assistance to disadvantaged members of the society e.g. to the disabled. Some organizations have special programs for the disadvantaged e.g. Special telephone booths by KP&T, Barclays Bank the street children account.

5.10. CONFLICT OF INTEREST AND MARKET MANIPULATION

Conflicts of Interest

A professional accountant before accepting or continuing a client relationship or specific engagement, the professional accountant in public practice shall evaluate the significance of any threats created by business interests or relationships with the client or third party.

Possible Safeguards:

- The use of separate engagement teams
- Procedures to prevent access to information – e.g. secure data filing
- Clear guidelines to members of the engagement team on issues of security and confidentiality

- Confidentiality agreements by employees and partners of the firm
- Regular review of the application of safeguards by a senior individual not involved with relevant client engagements

In circumstances where a threat cannot be eliminated or reduced to an acceptable level through the application of safeguards, the professional accountant in public practice should not accept the engagement or resign.
Independence Applications

Financial Interests
Holding a financial interest in an audit client may create a self-interest threat. The significance depends upon;

- The role of the person holding the financial interest
- Whether the financial interest is direct or indirect
- Materiality of the financial interest

Loans and Guarantees
If an audit client approaches a member of the audit team, member of the audit teams immediate family, or the firm offering a loan or guarantee that is not under normal lending procedures, terms and conditions, a self- interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level.
The member of the audit team, member of the audit teams immediate family or firm should not accept such a loan or guarantee.

Business Relationships
Close business relationships between a firm and the audit client as a result of a commercial relationship or common financial interest, may create self-interest or intimidation threats.
E.g... Financial interest in a joint venture
Unless the financial interest is immaterial and the business relationship is insignificant, the business relationship should not be entered into, be reduced to an insignificant level or terminated.

Family & Personal Relationships
Family and personal relationships between a member of the audit team and the audit client may create self-interest, familiarity or intimidation threats. The existence and significance of threats will depend on:-

- Individuals responsibilities on the audit team
- Role of the family member or other individual within the client and the closeness of the relationship

Possible Safeguards:

- Remove the individual form the audit team
- Re-structuring the responsibilities of the audit team

Employment with an Audit Client
Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm.

Possible Safeguards

- Modifying audit plan
- Having professional accountant review the work of the former member of the audit team

Temporary Staff Assignments
The lending of staff by a firm to an audit client may create a self-review threat. The firm's personnel should only give assistance for a short period of time should not be involved in non- assurance services or assume management responsibilities.
The audit client should be responsible for directing and supervising the activities of the loaned staff.

Possible Safeguards

- Double checking work performed by the loaned staff
- Not giving the loaned staff audit responsibility
- Not including the loaned staff as a member of the audit team

Recent Service with an Audit Client
Self-interest, self-review or familiarity threats may be created if a member of the audit team has recently served as a director, officer, or employee of the audit client.
E.g... A member of the audit team has to evaluate elements of the financial statements for which the member of the audit team had prepared the accounting records while with the client.

Possible Safeguard
Double checking/reviewing the work performed by the individual as a member of the audit team.

Serving as a Director or Officer of an Audit Client
If a partner or employee of the firm serves as a director or officer of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level, therefore, no partner or employee should serve as a director or officer of an audit client.

Long Association of Senior Personnel with an Audit Client
Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time.

Possible Safeguards

- Rotating senior personnel
- Professional accountant who is not a member of the audit team review the work of the senior personnel
- Regular independent internal and external quality reviews of the engagement

Fees
When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat.

Possible Safeguards

- Reducing the dependency on the client
- External quality control reviews
- Consulting a third party, such as a professional regulatory body or a professional accountant.

Overdue Fees
A self-interest threat may be created if fees due from an audit client remain unpaid for a long time, especially if a large part is not paid before the issue of the audit report for the following year. If fees remain unpaid after the report has been issued, the existence and significance of any threat should be evaluated and safeguards applied.

Possible Safeguards
Have an additional professionalaccountant who did not take part in the audit engagement provide advice or review the work performed.

Contingent Fees
Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm.

It is strongly advised that firms do not enter contingent fee arrangements.

Compensation and Evaluation Policies
A self-interest threat is created when a member of the audit team is evaluated on or compensated for selling non-assurance services to an audit client.

Possible Safeguards
Removal of the member from the audit team have a professional accountant review the work of the member of the audit team

Actual or Threatened Litigation
When litigation takes place between a firm or a member of the audit team and the audit client, self-interest and intimidation threats are created. The significance of the threats will depend on factors such as:-

- Materiality of litigation
- Whether litigation relates to a prior audit engagement

Possible Safeguards

- If litigation involves a member of the audit team, remove that
- individual from the team
- Having a professional accountant review the work performed

Provision of Non-assurance Services to Audit Clients
Self-review, self-interest and advocacy threats create threats to the independence of the firm by providing non-assurance services.

5.11. INSIDER DEALING, WHISTLES BLOWING AND CONFLICT RESOLUTION MECHANISM.

1. INSIDER DEALING

Management Responsibilities

Management of an entity performs many activities in managing the entity in the best interests of stakeholders. Management responsibilities involves leading, directing an entity, making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

E.g.

- Strategic decisions
- Being responsible for the actions of the entity's employees
- Authorizing transactions
- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with applicable financial reporting framework
- Taking responsibility for designing, implementing and maintaining internal control

Preparing Accounting Records and Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

E.g.

- Originating or changing journal entries, determining account classifications of transactions
- Preparing originating data

The client may request technical assistance from the firm on matters such as resolving accounting reconciliation problems, or analysing or accumulating information for regulatory reporting. *Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.*

Valuation Services

A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, range of values, for an asset, a liability or for a business as a whole. A firm performing valuation services for an audit client may create a self-review threat.

Possible Safeguards

- Have a professional who is not involved in providing the valuation
- review the audit or valuation of work performed
- Ensure personnel providing such services do not participate in the audit engagement

Taxation Services

When a firm performs certain tax services a self-review and advocacy threat is created.

E.g. of taxation Services

- Tax return preparation
- Tax calculations for the purpose of preparing the accounting entries
- Tax planning
- Tax advisory
- Tax disputes

Possible Safeguards

- Using professional who are not members of the audit team to perform the service
- Senior partner/senior staff member to review tax calculations
- Obtain advice from an external tax professional
- Advice from tax authorities

Internal Audit Services
The provision of internal audit services to an audit client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. If a firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level therefore a firm's personnel should not assume a management responsibility when providing internal audit services to an audit client.
IT Systems Services
Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

It is important that the firm's personnel do not assume a management responsibility otherwise there may to a threat to independence.

Litigation Support Services
Self-review or advocacy threats may be created in litigation support services such as:-

- Acting as an expert witness
- Calculating estimated damages
- Document management and retrieval.

Legal Services
Legal services that support an audit client in executing a transaction (for example, contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence of any threat will depend on factors such as:-

- The nature of the service
- Whether the services is provided by a member of the audit team
- The materiality of any matter in relation to the client's financial statements

Acting as an advocacy role for the audit client in resolving a dispute of litigation when the amounts involved are not material to the financial statement on which the firm will express an opinion, the firm should evaluate the significance of any advocacy threats and apply safeguards.

Possible Safeguards

- Using professional who are not members of the audit team to perform the service
- Having a professional who was not involved in providing the legal services provide advice to the audit team on the service and review any financial statement treatment.

Acting in an advocacy role resolving a dispute or litigation when the amounts involved are material, the firm shall not perform this type of service for an audit client.

Recruiting Services
Providing recruiting services to an audit client may create self-interest, familiarity or intimidation threats. In all cases, the firm should not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision should be left to the client.

Corporate Finance Services
Providing corporate finance services such as:-

- Assisting an audit client in developing corporate strategies
- Assisting finance raising transactions may create advocacy and self-review threats.

Possible Safeguards

- Using professionals who are not members of the audit team to provide the services
- Have a professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment.

Independence – Other Assurance Engagements
This section addresses independence requirements for assurance engagements that are not audit or review engagements.

Compliance with the fundamental principle of objectivity requires being independent of assurance clients.

Assurance Engagements
The professional accountant in public practice in an assurance engagement expresses a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement of a subject matter.

"Subject Matter Information" is used to mean the outcome of the evaluation or measurement of a subject matter.

Assurance engagements may be direct reporting <u>or</u> assertion based. It involves three separate parties:-

- Professional Accountant in Public Practice
- Responsible Party
- Intended users

Direct Reporting
Within direct reporting assurance engagements the professional accountant in public practice directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. The firm should be independent of the assurance client (the party responsible for the subject matter). An evaluation should be made of any threats the firm has reason to believe are created by network firm interests and relationship

Assertion-based Assurance Engagements
Assertion based assurance engagement is the evaluation or measurement of the subject matter performed by the *responsible party* and is made available to intended users.

The members of the assurance team and the firm should be independent of the assurance client (the party responsible for the subject matter information). Such independence requirements prohibit certain relationships between members of the assurance team and Directors or officers

- Individuals at the client in a position to exert significant influence over the subject matter information

Reports that Include a Restriction on Use and Distribution
The firm should communicate with the intended users regarding the independence requirements that are to be applied with respect to the provision of the assurance engagement, (for example – Engagement Letter).

Multiple Responsible Parties
In some assurance engagements, whether assertion-based or direct reporting, there may be several responsible parties. The firm should consider factors with regard to independence such as:-

- Materiality of the subject matter for which the responsible party is responsible
- Degree of Public Interest associated with the engagement

Documentation
The professional accountant should document conclusions regarding compliance with independence requirements. The professional should document:-

- Nature of threat
- Safeguard applied
- Rationale for conclusions

Engagement Period
The engagement period starts when the assurance team begins to perform assurance services. The engagement period ends when the assurance report is issued.
Other Considerations
There may be situations where an unintended violation occurs it generally will not Compromise independence provided the firm has appropriate quality control policies and procedures.

2. WHISTLEBLOWING
Whistleblowing occurs when an employee informs the public of inappropriate activities going on in the organisation. The whistleblower may be motivated by moral reasons or may have been passed over for promotion or suffered some other injustice in the workplace. The consequences of whistleblowing are often extreme: loss of job and/or home, ostracism by peers, loss of family relationships, personal isolation and effects on physical health. Employers look on whistleblowers as disloyal and unworthy of trust, while their peers may regard them as weak or unbalanced. Legislation has been passed in many countries to protect the whistleblower, because if these individuals do not come forward, many cases of wrongdoing would never be exposed.

CONFLICT RESOLUTION MECHANISM

Potential Conflicts

Intimidation threats arise when a professional accountant in business may face pressure for example in the following circumstances:-

- Act contrary to law and regulation
- Lie or intentionally mislead – Auditors or Regulators
- Issue or be associated with financial or non-financial reports that materially misrepresents the facts

Possible Safeguards

- Obtaining advice, from within the employing organization, an independent advisor, or a relevant professional body
- Seeking legal advice
- Using a formal dispute resolution process within the employing organization

Study Unit 6

Entrepreneurship and self-employment

Contents

6.1. THE DEFINITION OF ENTREPRENEURS AND ENTREPRENEURSHIP

ENTREPRENEURS

Definition of Entrepreneur

One who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying and assembling the necessary resources to capitalize on them.

Characteristics of Entrepreneurs

Much research has been undertaken to identify the basic characteristics and personality traits common to entrepreneurs. However, entrepreneurs generally come from all walks of life; they can be teachers, engineers, business students, farmers, accountants, lawyers etc. There are usually self-confident, sure of their goals and of how to achieve them. They are self- nurturing, and capable of overcoming disappointments. They are usually action-oriented, with high energy levels and with a capacity to work with uncertain situations. Timmons (1994) identified the key traits of the entrepreneur, based on an analysis of 50 research studies. These traits include:

- Total commitment, determination and perseverance
- A drive to achieve and grow
- Opportunity and growth orientation
- Willingness to take initiative and personal responsibility
- Persistence when problem solving
- Low need for status and power
- Calculatedly risk taking and risk seeking

O'Farrell (1986) identified the following types of new firm founders:

- **The Graduate Entrepreneur:** Typically a graduate of engineering or business, she/he is usually involved in high-value-added technology-based goods with export or import substitution potential.
- **The Opportunist Entrepreneur:** Usually of a middle class background, this person has typically held a variety of jobs and may have a family background in small business. They tend to have nursed an ambition to found his/her own business for a long time.
- **The Craftsman Entrepreneur:** Generally a semi-skilled or skilled background with a technical education or apprenticeship. They will often start a business on a part-time basis with little capital. They will have little business or management experience and is more likely to be limited to one or two products or services.

Entrepreneurs are changing all the time. In the future it is most likely that they will be more educated and younger than previously as more potential new products than ever will be technology based or will rely on the use of technology to produce.

The availability of entrepreneurs and entrepreneurship skill is influenced in part by the economic environment. The provision of low cost enterprise assistance in terms of resources and training by state agencies are mechanisms that have been shown to encourage entrepreneurship. The increased use of outsourcing by organizations has meant that more people have in recent years started to go out on their own, seeking an opportunity to fill a niche in the market.

2. ENTREPRENEURSHIP

Definition of entrepreneurship

Enterprise in general relates to generating an idea, **identifying the resources required to get the idea up and running as a business venture, and making** the venture a commercial reality (Lynch and Roche 1999). The classical definition of **entrepreneurship** limits itself to individuals who start up new business, large or small. The non-classical definition refers to any activity which creatively develops an organization, whether from scratch or as part of an ongoing process.

Characteristics of Entrepreneurship

1. Profit chances

The chances of profit are the level of return to the person who is taking risks and developing an idea into its business venture. The actions of the entrepreneurs will likely remain abstract and a paper leisure activity without the potential of the profit.

2. Creativity and Persuasiveness

There is a need to have the creative capacity for recognizing and pursuing the opportunities in a successful entrepreneurship. The entrepreneurs should possess great selling skills and be persistent.

3.Innovation

The entrepreneurship continuously demands a continuous search for innovative ideas. The entrepreneur should evaluate the present modes of business operations for developing more efficient and effective systems. In a simple definition, it is a continuous effort for optimization of performance in an organization.

4. Risk Bearing

As we defined above, the entrepreneurship is the willingness to take risks. The individuals should arise out of the implementation and creation of the creative ideas. They should believe that new ideas take some time to offer results and their results may not be instantaneous.

5. Vision

Probably, one of the biggest responsibilities of the entrepreneur is to decide the direction of the business. There is a need to have proper vision. If a company doesn’t have this, they will likely get lost in the sea.

6. Excellent Business Skills

A successful entrepreneur always has the ability to set up the internal procedures, systems, and processes required to operate a company. He/she should focus on sales, revenue, and cash flow all the times. They always evaluate the current talents and professional network.

Factors Affecting Entrepreneurship

Personality Factors

Personal factors such as initiative, proactive, problem-solver, persuasion, perseverance and self-confidence have become the major competencies of entrepreneurs.

Environmental Factors

The environmental factors can be defined as those factors in which the individuals have to work in the organization. Some of its examples are the legal system, social conditions, political climate, economic conditions and much more.

Stages in the Enterprise Process

The enterprise sets out the staged involved in moving from the initial idea to a commercial venture. The enterprise process discussed here is adapted for one proposed by Lynch and Roche (1999) and consists of the following six key phases:

- Generating the Idea
- Testing and Validating the Venture Idea
- Writing the Business Plan
- Assembling Resource and Market Entry
- Growing the Business
- Expanding or Exiting the Business

Generating the Idea

Business ideas can come from a wide variety of sources. Vesper (1990) identified a number of sources of venture ideas including the following:

- **Prior Employment:** Many new venture ideas come from the experience gained in former jobs. Some employees start their own business to fill a gap they found in the market that in now being served by the industry.
- **Obtaining Rights:** Acquiring a licence to produce and sell a product or service developed by others is another way of developing a new business venture.
- **Collaboration or Invention:** An inventor or creator of an idea who lacks some necessary skill sales, finance, production etc may be willing to let an appropriate person collaborate with them a new venture.
- **Hobbies:** These can be a source of new venture ideas. For example an avid part-time gardener may decide to open their own garden centre.
- **Social and Business Networks Encounter:** Social and Business networks play an important role in the commercialisation of new venture ideas.
- **Chance Observation:** Sometimes the inspiration for a new product or service will come simply from seeing a need in ones daily life.
- **Deliberate Search:** This approach involves the entrepreneur searching for ideas. The internet is a growing source of ideas with its extensive search capabilities.

Testing and Validating the Venture Idea

Once the new venture idea has been generated, it must be tested and validated to establish its business potential. Before a business plan can be written, market research is undertaken and a feasibility study is carried out.

Testing the venture idea

The testing phase will attempt to answer the following questions:

- Will people want the product? Will they buy it? Will it make a profit?
- What are the setup costs and the opportunity costs? What are the risks?
- Will the venture generate wealth for the entrepreneur?

Validating the venture idea

If the results of the testing are favourable then additional validation is carried out. The validation will look at the competitive advantages of the venture, the production, marketing, human resource and capital requirements of the venture to establish if it is a viable commercial business opportunity.

The next decision to be made is how to get the product to market. The following are some common routes to market:

- 1. Develop the new business from scratch.
- **Subcontracting out production** - the entrepreneur focuses on marketing and sales
- **Franchising -** The entrepreneur may decide to franchise an existing operation
- **Acquisition –** this is where the entrepreneur buys an existing company.

The feasibility study

A feasibility study should be undertaken before preparing a business plan. Its purpose is to determine the feasibility of the business venture.

Market research

Market research enables the entrepreneur to determine whether there are people willing to buy their product or service. Essentially market research should cover the following areas:

Determine the market: Who are the customers? How many are there? Where are they located? What price are they prepared to pay? Is the number of customers increasing or declining?

- **Analyse the competition:** What are the strengths and weaknesses of the competition? What products do they offer? For how much? Where do they sell?
- **Assess the environment:** How will the economy affect your business? Are there any trends in society that may influence your product e.g. green issues etc?
- **Evaluate the resources required:** How much capital will be required? How much working capital will be needed?

Writing the Business Plan

The purpose of writing a business plan is to show how the business is to be setup and managed. It sets targets for each phase of the development of the business, it clearly outlines the financial requirements of the business, and in addition it details the marketing strategy to be adopted.

It is often written with potential investors in mind as well as for the benefit of the entrepreneur. In general a business plan should include the following:

- An executive summary
- A description of the products or services to be offered
- An analysis of the market
- A detailed marketing plan
- A comprehensive human resource plan
- An operations plan and financial plan, including sales forecasts, financial projections, resource requirements etc.
- A capitalisation plan stating how much money the owner is putting into the business and what other finance is required.
- Details of the experience and expertise of the owner and/or management team.

In essence the business plan should show that:

- The venture is financially viable
- There is a market for the product or service
- The entrepreneur is able to manage the business

Assembling Resource and Market Entry
When funding has been arranged it is then possible to move the venture forward. It is critical that a realistic timeframes is established for market entry plans. The timeframe for starting the business will depend on the assembly of a number of resources. Factors, which need to be addressed, include:

- Finding funding sources
- Finding suppliers and distributors
- Finding suitable premises
- Recruiting and organising staff
- Acquiring machinery and technology
- Marketing and Venture launch
- Winning customers

Two key aspects for any start-up business are cashflow and credit control. If the money does not come in, there will not be any working capital to fund the next phase of production and marketing.

6.2. FACTORS TO BE REVIEWED WHEN CONSIDERING SELF-EMPLOYMENT

1. DEFINITION OF SELF EMPLOYMENT

Self-employment is 'starting and running a successful business or social enterprise'. Many famous companies began this way as visionary men and women patented an invention, created a company or registered a brand.

For some people, it is a lifestyle choice achievable by:

- setting up a business, either on a full-time basis or alongside a part-time job;
- working as a freelancer or contractor;
- buying into a franchise.

Reasons why people choose self-employment may also include:

- the desire to sell their skills and/or expertise;
- the desire toprove an idea;
- because they relish the challenge;
- wanting to generate a second income stream;
- reaction to an ill-informed first career decision;
- peer or family pressure;
- a feeling that there are no other options.

Self-employment has its benefits and risks.
The benefits

- Freedom
- Being your own boss
- Earning more money (possibly becoming rich)
- Working fewer hours
- Independence
- Variety and choosing work you enjoy

The risks
The more glamorous aspirations attached to self-employment take years of hard work and commitment to achieve. It is this realisation that provides the biggest shock to most people who decide to work for themselves. This may cast some light on why only one in three business start-ups in the UK succeed in the first three years of business.

KEY FACTORS TO CONSIDER WHEN SELF-EMPLOYED

Skills and qualities
There is a high level of commitment involved in starting a business so you need to take a good hard look at yourself to see if you are ready for this challenge. Auditing your skills and personality and building a support team of family, friends and advisors is as important as your idea and motivation.
Specific academic and professional qualifications may be essential for some self-employed professionals, so check your credentials. Essential qualities include:

- willingness to take risks;
- acceptance of uncertainty;
- natural networker;
- self-discipline;
- a total commitment to hard work;
- passion;
- energy;
- creativity.

Have you got what it takes?
In terms of your attitude to this way of life and working, you should ask yourself the following questions:

Could I be a (calculated) risk taker?
No business is risk free, so you need to judge the level of danger correctly and then be sufficiently well prepared to live with the consequences.

How do I respond to uncertainty?
Do you find this exciting rather than worrying? Are you prepared for changing markets, competition, and economic fluctuations? Will your hunger for change and to bring your business into reality be enough?

Am I opportunity aware?
Given even half a chance, do you take it? Better still, can you see it coming before anyone else does? Or are you too cautious or over-analytical?

How hard can I work?
Being self-employed is not an easy option, especially if you are working on your own. Results are often only produced by working long hours and doing routine tasks rather than bringing off high-powered business deals. Failures and disappointments are common but often make you more resilient for challenges ahead.

Am I a realist?
Can you gauge in practical terms what can be achieved or produced within a certain period? In business terms this translates into:

- being aware of limitations;
- striving for speed, efficiency and quality;
- pricing your output so that it appeals to clients but at the same time pays you a realistic wage.

Can I see the consumer's point of view?
Are you able to visualise the product or service you are offering through your customer's eyes? Cultivate being customer-centric.

How well organised am I?
You will have to be an excellent time manager. If you do not already possess this skill, it can and must be learned. How else will you:

- juggle tasks;
- meet multiple deadlines;
- prioritise conflicting demands;
- cope with basic administration such as sending out invoices?

Do I plan ahead?
Having a vision, a mission of clear goals allied to constant appreciation of your business's unique selling point will fuel your planning. You need to do this to minimise uncertainties and maximise your chances of success.

Will I be able to network?
It is essential to be able to market yourself and your business, often in social situations. Constantly putting yourself in a position to meet potential customers or contacts is a prerequisite. Does your networking lead to action or just make you lots of friends?

Am I computer literate and numerate?
What is your relationship with computers? If you are not totally familiar with any of the admin functions you need, you may have to pay other people to help with bidding for funds, doing the accounts and dealing with IT.

Do I have commercial awareness?
Do you know how to:

- attract and retain customers;
- make a profit;
- corner a share of the market?

How committed am I?
Do you believe in yourself and in your own business idea? Self-employment is not always a comfortable option or an easy alternative to finding regular work. Doubts or a half-hearted approach can be disastrous.

Am I self-motivated?
Running a business can be a lonely occupation. No one is going to motivate you other than yourself.

What does professionalism mean to me?
Will you:

- turn up to meetings on time;
- present a businesslike image;
- do the necessary homework?

It is essential to make a realistic assessment of your talents and work out whether you lack any of the skills essential to the success of your project. You may be able to acquire some of these skills and techniques through training or courses.

THE ECONOMIC IMPORTANCE OF SELF-EMPLOYMENT
1. SELF- EMPLOYMENT AND JOB CREATION
Governments of different countries often highlight self-employment as a way to reduce poverty and to fight against unequal opportunities. Consequently, they offer a variety of assistance to small businesses. The assumption is that a larger number of firms increases competition and leads to invention, innovation, consumer benefits and new jobs. It is also assumed that self-employment has a positive effect on the selfconfidence of workers.

2. SELF- EMPLOYMENT AND FINANCIAL REWARDS
A business may become very profitable. Companies are willing to pay more to independent contractors because they don't have the expensive, long-term commitments that they do with permanent employees, such as benefits, unemployment compensation and pensions. Independent contractors may also deduct business expenses from their taxes, which may increase their net pay.

SELF- EMPLOYMENT AND SOCIATY WELLBEING
For individuals, work is an important feature in structuring: personal and social identity; family and social bonds; ways of making money, and thereby accessing a number of essential and non-essential goods, services and activities; daily routines; level of activity; physical and mental well-being; self-confidence and self-esteem; a sense of self-worth provided by the feeling of contributing to society or the common good.

ENTREPRENEURSHIP AND INNOVATION

1. KEY CONCEPTS

Creativity is the ability to develop new ideas and to discover new ways of looking at problems and opportunities.

Innovation is doing new things, the ability to apply creative solutions to those problems and opportunities in order to enhance people's lives or to enrich society.

Entrepreneurship is the result of a process that applies both creativity and innovation to capitalize on marketplace opportunities. Entrepreneurs are those who marry their creative ideas with the purposeful action and structure of a business.

2. FOUR TYPES OF INNOVATION

Invention - described as the creation of a new product, service or process

Extension - the expansion of a product, service or process

Duplication - defined as replication of an already existing product, service or process

Synthesis - the combination of existing concepts and factors into a new formulation

- Seven great ways to look at innovation in order to understand its importance in entrepreneurship

1. **Innovation and education**

Since we live in an age of innovation, a practical education must prepare a man for work that does not yet exist and cannot yet be clearly defined. **–** Peter Drucker

2. Knowledge, information and innovation

Innovation is fostered by information gathered from new connections; from insights gained by journeys into other disciplines or places; from active, collegial networks and fluid, open boundaries. Innovation arises from ongoing circles of exchange, where information is not just accumulated or stored, but created. Knowledge is generated anew from connections, that weren't there before. **–** Margaret J. Wheatley

3. Money and innovation

Innovation has nothing to do with how many R&D dollars you have. When Apple came up with the Mac, IBM was spending at least 100 times more on R&D. It's not about money. It's about the **people you have, how you're led, and how much you get it. – Steve Jobs**

4. Ideas and innovation

Just as energy is the basis of life itself, and ideas the source of innovation, so is innovation the vital spark of all human change, improvement and progress. **–** Ted Levitt

5. Idea execution and innovation

Innovation is the process of turning ideas into manufacturable and marketable form. **–** Watts Humprey

6. Patience, persistence and innovation

Innovation by definition will not be accepted at first. It takes repeated attempts, endless demonstrations, and monotonous rehearsals before innovation can be accepted and internalized by an organization. This requires "courageous patience. **–** Warren Bennis

Learning and innovation

Learning and innovation go hand in hand. The arrogance of success is to think that what you did yesterday will be sufficient for tomorrow. **–** William Pollard

IMPORTANCE OF INNOVATION FOR ENTREPRENEURSHIP

Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the change and their symptoms that indicate opportunities for a successful innovation. And they need to know and to apply the principles of successful innovation.

A business opportunity, therefore, is the chance to do something differently and the better. An innovation is the way of doing something differently and better. Thus an innovation is the means of exploiting a business opportunity. Innovation has a different meaning in economics. All goods (whether physical products or services) are regarded as being made up of three factors: nature raw materials, physical and mental labor and capital (money). An innovation is a new combination of these three things. Entrepreneurs, as innovators, are people who create new combinations of these factors and then present to the market for assessment by consumers. This is a technical conceptualization of what is innovation is about. It does not give the practicing entrepreneur much of a guide to what innovation to make, or how to make it, but it should warn that innovation is a much broader concept then just inventing new products. It also involves bringing them to market. Some important areas in which valuable innovation might be made will be discussed below.

New products

One of the most common forms of innovation is the creation of new product. The new product may exploit an established technology or it may be the outcome of a whole new technology. The new product may offer a radically new way of doing something it may simply be an existing theme. David Packard built scientific instrumentation and information processing business umpire, Hewlett Packard, based on advanced scientific developments.

Products are not simply a physical tool for achieving particular ends. They can also have a role to play in satisfying emotional needs. Branding is an important aspect of this. A brand name reassures the consumer, draws ready-made associations for them and provides a means of making a personal statement. The possibility of innovations being made through branding should not be overlooked. The English entrepreneur, Richard Branson, for example, has been active in using the virgin brand name on a wide variety of product areas following its initial success in the airline business. To date, it has been used to create a point of difference on, among other things, record labels, soft drinks and personal finance products.

New services

A service is an act which is offered to undertake a particular task or solve a particular problem. Services are open to the possibilities of new ideas and innovation just as much as physical products. For example, the American entrepreneur, Frederick smith, created the multi-million dollar international business, federal express, by releasing a better way of moving parcels between people.

Like physical products, services can be supported by the effective use of branding. In fact, it is beneficial to stop thinking about “products” and “services” as distinct types of business and to recognize that all offerings have product and service aspects. This is important because it is possible to innovate by adding a “customer service” in component to a physical product to make it more attractive to the user. Similarly, developments in products technology allow new service concepts to be innovated.

New production techniques

Innovation can be made in the way in which a product is manufactured. Again, this might be by developing an existing technology or by adopting a new technological approach. A new production technique provides a sound basis for success if it can be made to offer the end-user new benefits. It must either allow them to obtain the product at lower cost, or to be offered a product of higher or more consistent quality, all to be given a better service in the supply of the product.

Production is not about just technology. Increasingly new production “philosophies” such as just-in-time supply (JIT) and total quality management (TQM) are providing platforms for profitable innovation.

New means of informing the customer about the product

People will only use a product or service if they know about it. Demand will not exist if the offering is not properly promoted to them. Promotion consists of two parts: a message, what is said, and a means, the route by which that message is delivered. Both the message and the means present latitude for inventiveness in the way they are approached. Communicating with costumers can be expensive and entrepreneurs especially when their ventures are in an early stage, rarely have the resources to invest in high profile advertising and public relation campaigns. Therefore, they are encouraged to develop new means of promoting their products.

SOURCES OF INNOVATION FOR OPPORTUNITIES

Drucker proposed that those interested in starting an entrepreneurial venture-either within an established company or as independent small business-should monitor seven sources of innovative opportunity.
The first four exist within the industry itself, and the last three in the social environment.

- The Unexpected
- Incongruity
- Innovation Based on Process Need
- Changes in Industry or Market Structure
- Demographics
- Changes in Perception, Mood, and Meaning
- New Knowledge

FACTORS AFFECTING A NEW VENTURE’S SUCCESS

- Industry structure
- Business strategy
- Entrepreneurial characteristics
- Successful entrepreneurs are better
- Successful entrepreneurs have a sense of urgency
- Successful entrepreneurs have a detailed knowledge
- Successful entrepreneurs seek outside help to supplement their skills, knowledge and abilities

WHAT IS THE IMPORTANCE OF INNOVATION?

- **Solving problems:** Most ideas are actually derived from attempts to solve existing problems. As such, when you encourage innovation, you are opening doors for solutions to problems both within and outside your company. If your business provides services, you might realize that your customer do not have an avenue to share their opinions, complaints, and compliments. The only avenue available could be the physical office. So, to solve the problem, you could decide to operate a virtual office where customers' needs can be attended to within a short time. The customers will be happy and as a result, your sales will go higher.

- **Adapting to change**: This is especially evident in the technological world where there are rapid changes defining the business. Change is inevitable and innovation is the method to not only keep your business afloat, but also ensure that it remains relevant and profitable. With the rise in mobile phones, traditional telephone had to find ways to remain relevant. Same case with your business, when you develop an innovation culture, you remain relevant at all times.
- **Maximizing on globalization:** With markets all over the world becoming more interlinked, greater opportunities are emerging in these new markets and with that, new needs and challenges. For instance, China and India are estimated to be the leading markets, and Africa is predicted to be the next "hot spot". Therefore, if your company hopes to tap into this market share, innovation is a must to enable you to capitalize on the opportunities opening up.
- **Facing up the competition:** The corporate world is always very competitive, and with many new companies coming up, the top position in the industry is no longer a reserve of a few. To retain or establish your company's cutting edge, you can compete strategically by having a dynamic business that is able to make strategic and innovative moves and thus cut above the rest.
- **Evolving workplace dynamics:** The demographics in the work place are constantly changing. With the new generation that has entered the market place; new trends are also coming up. Innovation is therefore critical to ensure the smooth running of the company.
- **Customers' changing tastes and preferences:** The current customer has a great variety of products and services available to him and is well informed of his choices than before. The company must therefore keep itself abreast with these evolving tastes and also forge new ways of satisfying the customer

INNOVATION PROCESS

Stage 1: Idea Generation and Mobilization

The generation stage is the starting line for new ideas. Successful idea generation should be fueled both by the pressure to compete and by the freedom to explore. IDEO, the product development and branding company based in Palo Alto, California, is a good example of an organization that encourages successful idea generation by finding a balance between playfulness and need.

Once a new idea is generated, it passes on to the mobilization stage, wherein the idea travels to a different physical or logical location. Since most inventors aren't also marketers, a new idea often needs someone other than its originator to move it along. This stage is vitally important to the progression of a new idea, and skipping it can delay or even sabotage the innovation process.

Stage 2: Advocacy and Screening

This stage is the time for weighing an idea's pros and cons. Advocacy and screening have to take place at the same time to weed out ideas that lack potential without allowing stakeholders to reject ideas impulsively solely on the basis of their novelty. The authors found that companies had more success when the evaluation process was transparent and standardized, because employees felt more comfortable contributing when they could anticipate how their ideas would be judged. For example, one software engineer from an information technology organization said, "One of the things I have struggled with is evaluations of my ideas. Some of my ideas light up fires around here, while others are squashed. . . . Needless to say, I grow skeptical when [the executives] ask for ideas and then do not provide feedback as to why an idea was not pursued."

Stage 3: Experimentation
The experimentation stage tests the sustainability of ideas for a particular organization at a particular time — and in a particular environment. At this stage, it's important to determine who the customer will be and what he or she will use the innovation for. With that in mind, the company might discover that although someone has a great idea, it is ahead of its time or just not right for a particular market. However, it's important not to interpret these kinds of discoveries as failures — they could actually be the catalysts of new and better ideas.

Washington Mutual Inc.'s recent interior redesign provides a good example of how successful experimentation works. Instead of applying a new design to all its branches, the banking and insurance company, headquartered in Seattle, Washington, implemented the design in just a couple of locations to see how it would be received. Subsequently, when customers responded favorably, the bank took its innovation to the next level, applying the new design to several other branches. This way, the company didn't lose money and time by applying a new idea all at once without knowing if it would succeed.

Stage 4: Commercialization
In the commercialization stage, the organization should look to its customers to verify that the innovation actually solves their problems and then should analyze the costs and benefits of rolling out the innovation. The authors make sure to note that "an invention is only considered an innovation [once] it has been commercialized." Therefore, the commercialization stage is an important one, similar to advocacy in that it takes the right people to progress the idea to the next developmental stage. For example, one chief executive officer said, "We learned a simple thing: Researchers and idea creators do not appreciate the nuances of marketing and commercialization. . . . In the past, we tried to get the researchers involved in the commercialization aspects of the business. . . . The end result was pain and more pain."

Stage 5: Diffusion and Implementation
The diffusion and implementation stages are, according to the authors, "two sides of the same coin." Diffusion is the process of gaining final, companywide acceptance of an innovation, and implementation is the process of setting up the structures, maintenance and resources needed to produce it. A good example of a successful approach to diffusion comes from International Business Machines Corp., which involves its employees early in the idea-generation stage and conducts so-called innovation jams, to which they invite not only employees but also clients, business partners and even employees' families. IBM aids later diffusion by giving everyone a stake in the idea from the beginning.

6.5. ENTREPRENEURIAL CHARACTERISTICS

1. Entrepreneurship Is Not for Everybody—Or Is It?

Not everyone has the qualities it takes to be an entrepreneur or even wants to be an entrepreneur. Even people who possess the necessary qualities are not necessarily made happy by being entrepreneurs. People who have entrepreneurial characteristics are often happier working for someone else. They use their entrepreneurial skills to advance their own careers without taking the risks associated with being an entrepreneur. If you recognize that you have some of the characteristics discussed here but do not feel drawn to becoming an entrepreneur, you can find ways to further your goals or your chosen career by putting your entrepreneurial characteristics to work for you. It may surprise you how much recognition you'll get for the good work you do.

Who is the Entrepreneur?
Somebody who has **IDEAS** and makes these ideas happen or come to life. Must have **some BUSINESS SKILLS** (ideation, creativity & innovation), Somebody who **ASSUMES RISKS** Desires to **MAKE PROFIT**.

The Role of an Entrepreneur:
1. Entrepreneurs are innovators

- They observe an opportunity.
- They create new goods and services.
- They improve existing products.

2. Entrepreneurs provide choice

- They add goods and services to the marketplace.
- They offer variety.
- They design different approaches to familiar problems.

3. Entrepreneurs provide jobs

- They hire workers for their businesses.
- They consume resources, thus providing jobs in the industries that supply those resources.

Entrepreneurs help the economy grow.

2. CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

Passion for the Business
The number one characteristic shared by successful entrepreneurs is a passion for the business. This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives.

Product/Customer Focus
A second defining characteristic of successful entrepreneurs is a product/customer focus. An entrepreneur's keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.

Tenacity Despite Failure
Because entrepreneurs are typically trying something new, the failure rate is naturally high. A defining characteristic for successful entrepreneurs' is their ability to persevere through setbacks and failures.

Execution Intelligence
The ability to fashion a solid business idea into a viable business is a key characteristic of successful entrepreneurs.

3. THE QUALITIES OF AN ENTREPRENEUR

1. Inner Drive to Succeed
Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

2. Strong Belief in themselves
Successful entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often been seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

3. Search for New Ideas and Innovation
All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

4. Openness to Change
If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

Competitive by Nature
Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

Highly Motivated and Energetic
Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

Accepting of Constructive Criticism and Rejection
Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

4. SOME ENTREPRENEURIAL SKILLS
Ability to Plan: The ability to plan is a key skill for entrepreneurs. They must be able to develop plans to meet goals in a variety of areas, including finance, marketing, production, sales and personnel (hiring and maintaining productive and satisfied employees).

Communication Skills: Entrepreneurs should be able to explain, discuss, sell and market their good or service. It is important to be able to interact effectively with your business team. Additionally, entrepreneurs need to be able to express themselves clearly both verbally and in writing. They also should have strong reading comprehension skills to understand contracts and other forms of written business communication.

Marketing Skills: A business's success or failure is very dependent on whether the business reaches the market (its potential customers), interests the market and results in those in the market deciding to buy. Many entrepreneurs who failed started with an innovative good or service that with proper marketing could have been very successful. Good marketing skills that results in people wanting to buy your good or service are critical for entrepreneurial success.

Interpersonal Skills: Entrepreneurs constantly interact with people, including customers and clients, employees, financial lenders, investors, lawyers and accountants, to name a few. The ability to establish and maintain positive relationships is crucial to the success of the entrepreneur's business venture.

Basic Management Skills: The entrepreneur must be able to manage every component of a business. Even if entrepreneurs hire managers to attend to daily details, they must understand if their business has the right resources and if those resources are being used effectively. They must ensure that all the positions in their business are occupied by effective people.

Personal Effectiveness: In order to handle the pressures of their busy lifestyles, entrepreneurs must have the ability to manage time well and to take care of personal business efficiently. Because first impressions are so important, entrepreneurs must also pay attention to such things as personal appearance and telephone skills. For example, think of the difference in the impression made by someone who answers the phone by saying,"Yeah?" versus saying, "Computer Support Services, this is Alex. How may I help you?" Additionally, entrepreneurs benefit a great deal by being aware of their own strengths and weaknesses.

Team Building Skills: Because entrepreneurs usually assemble ateam of skilled people who help them achieve business success, they must be able to effectively develop and manage the team.
Leadership Skills: One of the most important leadership skills an entrepreneur must have is the ability to develop a vision for the company and to inspire the company employees to pursue that vision as a team. The expression "people would rather be led than managed" applies especially well to an entrepreneurial venture.

6.6. THE ROLE AND CHALLENGES OF AN ENTREPRENEUR

Who is Entrepreneur?
Who creates his Own Business who Organizes, operates and share the risk of Business. Generator of new ideas, and who makes it real as new innovation. A person who spots an opportunity and shows initiative and a willingness to take risks in order to benefit from the potential rewards.

The role of entrepreneurs
Initiator
The entrepreneur is the one who initiates the process of creating an enterprise by coming up with the idea for the business and planning out how to turn that idea into a reality.

Risk Taker
In an enterprise, the entrepreneur, being the owner, is the biggest risk taker. He is the one who finds the capital to back up his idea and also the person who is accountable in the face of the failure of that particular idea.

Reduces Risk
It is also one of the most important roles of entrepreneurs to reduce the risk of an enterprise failure by bringing in people that can help the organization grow. These people can be shareholders or investors that have a stake in the company and therefore are motivated to help the company succeed.

Allocator

An entrepreneur procures and allocates various resources in the organization. The most important of these resources is manpower. The entrepreneur is responsible for hiring an efficient staff to help him carry out his business. This is important because a good manager can take a business to new heights, while a bad manager can destroy the business.

He is also responsible for creating an organizational structure and departments for a more efficient functioning of the enterprise.

Adhering to Legal Norms

To ensure that the enterprise adheres to legal norms and policies, such as obtaining a license is also the duty of the entrepreneur. Not pertaining to these can mean serious legal consequences for the enterprise. These could be in terms of financial losses for the organization or something even more serious such as shutting down of an enterprise.

Benefits of Entrepreneurship

- People Create their own destiny
- People Make a difference
- They Reach their full potential
- They Generate impressive profits
- Contribute to society and be recognized for their efforts
- Do what they enjoy and have fun at it!
- Contribute to the Economic growth and development
- Initiate change in the structure of business, trade, industry and society.
- Income and employment generation

Challenges Entrepreneurs Face

- External Challenges:
  - The economic cycles: recession, boom, depression and recovery
  - Fluctuating interest rates
  - Interruptions in supplies
  - Labor market trends
  - Government regulations e.g. tax laws
  - Natural catastrophes
- Personal Factors:
  - Financial risk of losing money
  - Career risk: unemployment when business collapses
  - Psychic risks: collapse of business can lead to depression and/or low self esteem.
  - Social risk: entrepreneur may give up social life which affects family and relations.
- Lack of skills and experience
  - Inability to see the business through even when it is a good business opportunity.
- Mismanagement
  - Misuse of resources, wastage of stocks, embezzlement
- Poor business ethics
  - Unfair business practices, conflict with the law

Study Unit 7

Entrepreneurial opportunities

Contents

1. Generation and sources of business ideas
2. Business incubation
3. Qualities of a good business opportunity
4. Assessing and selecting a suitable market
5. Matching skills and resources to changing technology
6. The protection of business ideas and business security issues
7. Networking

7.1 GENERATION AND SOURCES OF BUSINESS IDEAS

1. WHAT MAKES A GOOD IDEA?

Good business ideas:

- Solve a problem
- Offer a better, cheaper way
- Simple & practicable
- Can be delivered quickly
- Have a clear focus Cobra – the “less gassy“
- Anticipate trends & exploit beer growing markets

2. CONSIDERATION TO GENERATE A GOOD IDEA

Uses of your Strengths!

- To enable one purse those business ideas that match your strength (focus).
- It is the best tools for accomplishing your goals and satisfaction.
- Your time and energy are devoted to things that you do exceptionally well.

However it takes some creativity, but it’s to your advantage to focus on your strengths.

- List your strength, interests/hobbies, skills / talents
- List under-/unemployed resources you have in your home, community or university
- Relating strength to a business idea

When you know yourself that well then you can know the business ideas that you can pursue.

- Think Outside the Box!!!

“We must step back and see if the solutions to our problems lie outside the box.“ Think creatively, without hindrance by the traditional or conventional constraints. Avoid “Me too” business ideas (Common business ideas like grocery shops, saloons) unless you are offering something unique. Avoid the obvious/status quo.

3. **SOURCES OF NEW IDEAS**

- Personal experiences, problems, challenges and yearnings
- Failed Projects or Businesses
- Consumers
- Formal and informal information channels
- Existing Products and Services
- Analysis uncovers ways to improve offerings that may result in a new product or service.
- Distribution Channels
- Channel members can help suggest and market new products.
- Federal Government
- Patent Office files
- New product ideas generated in response to government regulations.
- Research and Development
    - Formal R&D
    - Informal R&D

3. METHODS OF GENERATING NEW IDEAS

Even with the wide variety of sources available, coming up with an idea to serve as the basis for the new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brain storming and problem inventory analysis.

Focus groups

Group of individuals providing information in a structured format is called a focus group. The group of 8 to 14 participants is simulated by comments form other group members in creatively conceptualizing and developing new product idea to fulfill a market need.

Brainstorming

A group method of obtaining new ideas and solutions is called brainstorming. The brainstorming method for generating new ideas is based on the fact that people can be stimulated to greater creativity by meeting with others an d participating with organized group experiences. Although most of the ideas generated from the group have no basis for further development, often a good idea emerges.

Problem inventory analysis

Problem inventory analysis uses individuals in a manner that is analogous to focus groups to generate new product ideas. However instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem. This method is often effective since it is easier to relate known products to suggested problems and arrive at a new product idea then to generate an entirely new idea by itself.

Creative problem solving

Creative problem solving is a method for obtaining new ideas focusing on the parameters.

Reverse brainstorming

Similar to brainstorming, but criticism is allowed and encouraged as a way to bring out possible problems with the ideas.

Synectics

Synectics is a creative process that forces individuals to solve problems through one of four analogy mechanisms: personal, direct, symbolic and fantasy. This forces participants to consciously apply preconscious mechanisms through the use of analogies in order to solve problems.

Gordon method

Gordon method is a method of developing new ideas when the individuals are unaware of the problem. In this method the entrepreneur starts by mentioning a general concept associated with the problem. The group responds with expressing a number of ideas.

Checklist method

Developing a new idea through a list of related issues is checklist method of problem solving.

Free association method

Developing a new idea through a chain of word association is free association method of problem.

Forced relationship
Forced relationship is the process of forcing relationship among some product combination. It is technique that asks questions about objects or ideas in an effort to develop a new idea.

Collective notebook method
It is method in which ideas are generated by group members regularly recording ideas.

Heuristics
It is method of developing a new idea through a thought process progression.

Scientific method
This is a more structured method of problem solving, including principles and rules for concept formation, making observations and experiments, and finally validating the hypothesis.

Value analysis
Value analysis is developing a new idea by evaluating the worth of aspects of ideas.

Attribute listing
This is an idea finding technique that requires the entrepreneur to list the attributes of an item or problem and then look at each from a variety of viewpoints.

Matrix charting
Matrix charting is a systematic method of searching for new opportunities by listing important elements for the product area along two axis of chart and then asking questions regarding each of these elements.

Big dream approach
Developing a new idea by thinking about constraints is big-dream approach of problem solving.

Parameter analysis
Parameter analysis is developing a new idea by focusing on parameter identification and creative synthesis.

7.2 BUSINESS INCUBATION

Business incubators are programs designed to support the successful development of entrepreneurial companies through and array of business support resources and services, developed and arranged by incubator management and offered both to the incubator and through its network of contacts.
The goal of incubators is to increase the chance that a start-up will succeed, and shorten the time and reduce the cost of establishing and growing its business.
E.g. of Incubation Services

- Marketing Services
- Help with Business Basics
- Technology Assistance
- Help with Presentation Skills
- Help with Accounting/Financial Management

Who is a business incubator?
A business incubator in business speak is a company that helps new and startup companies to develop by providing services such as management training or office space.

Services Provided by Incubator

- Shared Premises
- Business Advice
- Business Services
- Networking
- Mentoring
- A Full Time Manager

Incubate Needs
The incubation period for an individual business is normally one to three years. The factors crucial to an incubator's success include:

- A solid market
- A sound financial base
- Strong community support and
- A policy support perspective to attract government linkage.

BENEFITS
Advisory Services
Incubator staff serves as advisors to all client companies holding regular as well as informal meetings with each client to address strategic and tactical needs. Finance & Accounting Assistance with budgeting, tax and reporting issues can be provided by appropriate Incubator organizations.

7.3 QUALITIES OF A GOOD BUSINESS OPPORTUNITY

1. What is Opportunity Identification?

- Chance to meet a market need
- As a creative process in which novel and valuable business ideas are produced
- A creative combination of resources to deliver superior value
- New goods, services, raw materials, markets, and organizing methods can be introduced

2. Three Ways to Identify a Business Opportunity

- Observing Trends
- Finding Gaps in the Market Place.
- Solving a Problem

3. Characteristics of good business opportunities, e.g.

- Something you are passionate about
- Find a niche market
- Low start- up costs
- Low fixed costs

- Recurring Sales
- Clear, distinct position in the marketplace
- Maximise the unique talents of you and your team
- Create intellectual property

4. **Good business opportunity**
An opportunity is an opening in the environment that when exploited can create economic value. Exploiting an opportunity involves risk and resources commitment that makes it necessary to make informed decisions when committing to an opportunity.

Low capital requirement
A good business opportunity should be cheap to finance. Access to capital is a major impediment to entrepreneurship implying that entrepreneurs should focus on ideas that are cheap to finance. Entrepreneurs exploit financing methods such as loans, venture capitalists and contributions from friends and family among others. Capital suppliers are reluctant to finance new businesses with huge capital requirements.

Passionate
A good business opportunity is one that aligns with the individual's passion. The founder's motivation is a key determinant of the success of a start-up. A passionate founder has an internal motivation towards building a bright future for the business. As a result, such a leader creates a clear vision and mission statements and uses them to motivate stakeholders towards organizational goals.

Matches individual skills
Individual's capabilities are a key determinant of the fitness of a business proposal. A good business proposal aligns with the entrepreneur's skills that ensure conversance with the intricacies of the business process.

Growth
Growing a business is one of the principal goals of an entrepreneur. It is therefore paramount to ensure the scalability of an opportunity before committing resources. A good business opportunity's growth regarding profitability, revenue, size, and other yardsticks of evaluating growth are verifiable.

Reflect environmental realities
A business opportunity should be relevant to the prevailing environment. The business environment is dynamic, and entrepreneurs should understand how changes in the environment affect customer needs and business operations. An entrepreneur should have a deep understanding of the environmental trends to ascertain the opportunity's long-term viability.

Market Size
One of the most important factors when evaluating a business opportunity is market size. Do a little market research. Figure out if there is a market for the opportunity — and how big that market is.
Before you move forward, you want to be sure the demand is there. You don't need to appeal to a massive market, but it does help if you understand the market. Additionally, knowing how engaged the market is and how likely they are to pay for what's being sold can help.

7.4 ASSESSING AND SELECTING A SUITABLE MARKET

1. TARGET MARKET SELECTION

As one looks at international acting companies it is obvious that most of them started their business in one country and entered later on other markets. But although markets are more international than ever before and there are more chances to benefit from, most of the companies who are engaged in these markets are unprepared and decide to enter international markets in a more accidentally way (Fuchs and Apfelthaler 2002, p. 126). Target market selections and market entries are too often led by coincidence and unconscious behaviour. However, there are still some systematic questions to be answered before deciding whether to enter a market or not.

Fuchs and Apfelthaler choose a systematic approach to answer the above question and criticise the approach which basically assumes that, if the product has enough potential to enter a new market, the company is fitting the market as well (2002, p. 127). Companies using this theory skip an internal analysis of the company itself - like a SWOT-Analysis (Strength, Weaknesses, Opportunities and Threats) - and only conduct a market analysis like e.g. a STEP-Analysis (Sociological, Technological, Economical and Political Change). Other companies do it the other way around and only use the market analysis and skip the internal one. The problem in both cases is that with skipping one analysis the decision to enter a market is already made what leads to a fading out of problems and risks of a new market environment as well as of the product. To select and to enter a new market in a systematic way Fuchs and Apfelthaler propose the following steps (2002, p. 130):

- Internal potential analysis,
- Product potential analysis,
- Market potential analysis,
- Market entry decision,
- Planning decision (Marketing Mix and Business Plan) and
- Market development.

As this assignment deals with target market selection we want to focus now on step three and have a closer look at the market potential analysis and the following market selection.

2. CENTRAL CRITERIA FOR THE MARKET SELECTION

Market attractiveness

Kutschker and Schmid mention that the market attractiveness describes in general the benefit potentials of a certain market (2005, p. 928). They categorise market attractiveness in different sub-criteria which are listed below:

- Market volume, growth and structure
- price structure,
- cost situation,
- procurement situation and
- infrastructure.

It is not possible to call a market attractive in general because each company has different demands and targets which determine whether the market is attractive or not.
Therefore it is necessary not only to use one criterion but to combine different ones to analyse the overall attractiveness in a multidimensional way (Kutschker and Schmid 2005, p. 929). After analysing the attractiveness a company has a first hint whether it could enter the market with a good return on its investment or not. But a good attractiveness alone does not mean a good

opportunity at all because there are also risks which could jeopardise the market entry. Having said this, we want to have a short look at different risks at foreign markets.

Market risks

According to Kutschker and Schmid market risks describe possible uncertainties potentials which could affect the company's investments. They mention two groups of possible risks which are called primary economical risks and secondary risks with economical consequences (2005, p. 905-906). Primary risks are e.g. currency risks, payment risks, inflation risks or transport risks. In addition to these Kutschker and Schmid call the secondary risks which are e.g. dispossession risks, transfer risks, security risks or fiscal risks. These are mentioned in different concepts which try to assess the risk of certain markets and create rankings of these markets (2005, p. 929) e.g. the Business-International-Country-Rankings or the Business Environment Risk Index (BERI). The BERI itself e.g. consists of different sub-indices which are the Operation Risk Index, Political Risk Index and the Repayment factor. Experts from different economical backgrounds assess criteria like political stability or economical growth from their point of view and rate these many sub-criteria with a grade. The average grades of each sub-index are summed up and build the Profit Opportunity Recommendation Index (POR). Kutschker and Schmid mention the BERI-example to make clear - as we already mentioned above - that such indices only give a first hint and cannot present risks in general for all foreign countries (2005, p. 932). A market which is dangerous for one country can be a good one for the next company, depending on what you are trading.

Besides the BERI there are a lot more indices which cannot all be mentioned here. The take away from this should be that all indices combine risk indicators and try to prognosticate more or less precise how this market could develop in the short, medium or long term to provide a first landmark. We will pick up some sub-topics later in the analysis for the United States (US) market in the practical example.

Market entry barriers

Kutschker and Schmid call the market entry barriers the third important criterion for the target market selection so we will have a look at them too (2005, p. 933). In general they define them as barriers which a company has to overcome if it wants to enter a certain market. In literature one can find different classifications of market entry barriers. We want to show two examples which can be used to classify them and then think about which we could use for our practical example.

Fuchs and Apfelthaler differentiate the barriers into economies of scale, product differentiation, capital needs, conversions costs and access to distribution channels (2002, p. 56-61). Hence economies of scale are a barrier if a company has to enter the market with a certain amount of produced goods to compete successfully. Product differentiation here means that a customer should recognise the product by its differences compared to similar products what means that the company has to spend a lot of money e.g. in advertisement or a better quality to make the own product different from the already existing ones on the market. If a market volume is limited, a company in a capital intensive environment could have problems to get enough money to enter new markets which could form a barrier. Conversion costs means that on the one hand the company could be confronted with own costs by converting a product into a new market e.g. by adapting it to the market and on the other hand the customer could have more costs by using this new product. The last mentioned distribution channels can be a barrier if a company has to spend a lot of effort to enter or to control these channels. In my opinion this differentiation from Fuchs and Apfelthaler is already specific and practical to handle because one can categorize the different barriers and thereafter develop a risk assessment. But let us have a look at another possibility to differentiate market entry barriers.

Kutschker and Schmid approach this topic in a more general way by differentiating the barriers into institutional barriers, behaviour-based barriers from the market and behaviour-based barriers from the company (2005, p. 933-935). At first glance this does not seem to be very handy in my opinion but they categorise these general so one can use them in a more practical way. Institutional barriers means here tariff and non-tariff barriers like toll, licence fees or other governmental regulations. The second mentioned kind of barrier is more related to behaviour in general and here specifically the behaviour of the competitor e.g. the pressure by competing companies, the access to distribution systems, another consumption behaviour or advantages concerning economies of scale of competitors. The last point means barriers which appear by a wrong behaviour of the own company e.g. by assessing the new market to strong or the barriers as insuperable. In this case problems are overestimated and a possible new market seems to be locked for the own company. In my opinion the second approach of Kutschker and Schmid is also a practical way of assessing entry barriers. One can find similarities in both approaches like e.g. the problem with the product differentiation which can be found in the market behaviour of the second approach or the access to distribution channels which can be found in both cases.

What a company should consider in both cases is the following: an assessment of different market entry barriers for themselves is not qualified to support a target market selection. A company always has to correlate the barriers to the company's potential to overcome these barriers because a very strong company is under certain circumstances able to overcome these barriers and to enter the market successfully (Kutschker and Schmid 2005, p. 934).
Now that one could learn about the three central criteria of a target market selection we come back to the two methods of market selection mentioned in chapter 2.1: the single-level method and the multi-level method of target market selection.

3. MARKET SELECTION PROCESS CAN BE DONE IN THE FOLLOWING STEPS

- Determine the objectives or goals of market selection
- Determine the parameters to be used for market selection
- Do a preliminary screening of the market
- Do a detailed investigation of this screening and short list the best fit
- Evaluate the shortlisted markets and select one or two

7.5. THE PROTECTION OF BUSINESS IDEAS AND BUSINESS SECURITY ISSUES

Why protect a business idea?

- Keep control of intellectual property
- Maintain "unique selling point"
- Maximise return on investment
- Reduce threat of competition

The best kind of protection for a business idea
Customers
The best protection a start-up business can have is to develop a product that customers really want at a price they can afford. Patents, trademarks and copyright provide some protection, but a business can't just rely on them.

Remember that the best business ideas are usually copied, often very quickly, by other competitors. Relatively few start-ups are able to get protection from patents, copyright or trademarks. The best protection for a small business comes from delivering a great product and building customer loyalty.

Make sure you know the precise difference between a trademark, patent and copyright. They offer different kinds of protection. Patents, in particular, are quite difficult to obtain. You should appreciate that a start-up doesn't have to have a new idea. It might be focusing on doing the same thing as a competitor, only cheaper, quicker or better. Small businesses are also constrained by their time and resources. A business idea often comes from personal or business experience, and is developed whilst the entrepreneur is working for someone else!

Trademark

A Trademark is anything that identifies and distinguishes the source of the goods or services of one party from those of others. Most trademarks are comprised of words, images, or a combination of the two, but anything that can identify the source of goods or services can be a trademark.

The core purpose of trademark law is to allow consumers to have confidence in the accuracy of labels and other information that tells them where goods or services come from. This allows the market to build trust in the consistent quality of brands.

Types of Trademarks

Word Marks: Word marks are perhaps the most common type of trademark. Word marks can be made up of anything from a single letter or numeral to a long sequence of words.

- **Business Names**: FORD, MICROSOFT, MCDONALD'S
- **Brand Names:** MUSTANG, WINDOWS, BIG MAC
- **Slogans:** "JUST DO IT." • Tip: Word marks are typically expressed in ALL CAPS.
- **Design Marks :**Design marks can be logos, character designs, or any other type of image that identifies the source of goods or services. Some design marks also include text, numerals, or other characters.
- **Nontraditional Trademarks:** Nontraditional trademarks can be colors, sounds, or anything else that is a source identifier. **Color trademarks** include UPS' brown, Tiffany's blue, and T-Mobile's magenta – note that the protection for those colors extends only to similar goods and services; they do not "own" the colors in any other context. **Sound trademarks** include Yahoo's "Yodel," NBC's "Chimes," and THX's "Deep Note." The mark must not be a functional feature of the good or service. Sometimes it is difficult to prove non-functionality.

Patent

The word patent originates from the Latin patere, which means "to lay open" (i.e., to make available for public inspection). Which was a royal decree granting exclusive rights to a person, predating the modern patent system. Similar grants included land patents, which were land grants by early state governments in the USA, and printing patents, a precursor of modern copyright. In modern usage, the term patent usually refers to the right granted to anyone who invents any new, useful, and non-obvious process, machine, article of manufacture, or composition of matter. Some other types of intellectual property rights are also called patents in some jurisdictions: industrial design rights are called design patents in the US, plant breeders' rights are sometimes called plant patents. A patent is an exclusive monopoly grant by the govt. of an inventor over his invention for limited period of time.

Copyright
The exclusive right given by law for a certain term of years to an author, composer etc. (or his assignee) to print, publish and sell copies of his original work" (Oxford English Dictionary).
What can be protected?

- literary or dramatic work
- a musical work
- an artistic work
- a cinematograph film
- a sound recording
- a photograph
- a computer generated work

Whose Rights are protected ?
Copyright protects the right of Author, i.e. creator of Intellectual Properties. He/She is also called the First Owner of Copyright⁄ However, in course of employment, the employer is the first owner of these rights. Work Creator of work Literary or dramatic work Author Musical work Composer Cinematograph Producer Sound recording Producer Photograph Photographer.

7.6 NETWORKING

1. WHAT IS NETWORKING

Business networking is a marketing method by which business opportunities are created through networks of like- minded business people. It is establishing & maintaining lines of communication with people. It is about connecting with people in order to: – share information – resources – leads
The emphasis is on relationship building, getting to know people, finding out how you can help them and what they can do for you.

2. BENEFITS OF NETWORKING

Effective networkers use their networking skills throughout their life. The main benefits are:

- Raising awareness about you
- Sharing ideas and solving problems
- Building strong relationships and rapport
- Developing partnerships, leads and referrals
- Becoming more influential in your industry
- Increasing efficiency and productivity

3. THE KEY STEPS

- Determine your goal
- Decide who to talk to / Know your audience
- Figure out what the person knows / WIIFM
- Practice the opening speech & request(ask) a meeting
- Prepare to handle doubters
- Prepare to show & have the meeting
- Follow-up: Thank-you's, nurture connections and keep track of contacts

4. NETWORKING TOOLKIT

- Business Cards
- Style and Clothing
- Event Research
- Make a plan
- What can you do for nothing
- Opening Speech

Building your network: Good networkers are always on the lookout for opportunities to meet and interact with people. The more people you meet, the better your chances of finding the information you need or the leads you want. Even if the person you meet can't help you, they may know someone who can. Where? – Networking Events – Trade Shows – Online

The 'elevator pitch'

- Hook
- What problem do I solve?
- Who is my market?
- Who is my competition?
- What is my service, product, company or cause?
- What is my competitive advantage?
- Why should they care?
- How do I make money?
- Who is behind me?
- Who is/has been using my product?
- How can you demo it?
- Request
- Passion
- About 150-225 words

5. MAINTAINING YOUR NETWORK

- Following through
- Re-establishing contact – This shows that you are dependable, responsive, organised and courteous.
- Contact Management – Facebook, LinkedIn, ..etc – Outlook

Study Unit 8

Enterprise development

Contents

1. Factors and trends that influence the growth of business enterprises
2. Business life cycles, stages and challenges faced by an entrepreneur at each stage
3. Strategies for managing growth and transition
4. Factors for success at each stage of development
5. Business amalgamations integrations
6. Statutory policies on enterprise development
7. Milestones in Enterprise development

8.1 FACTORS AND TRENDS THAT INFLUENCE THE GROWTH OF BUSINESS ENTERPRISES

1. Growing the Business

Once the business is up and running and the initial problems have been resolved, the business needs to consider the next phase of growth and how to achieve it. Options include consolidation in core market, market development, product development and diversification.

2. Expanding or Exiting the Business

Once a company is successful and the value of the company has increased, there are three basic options open to the owners of the company if they want to realise a profit. The three options include:

- **Flotation:** a flotation can help raise cheap capital via the equity market. The company can finance acquisitions by issuing shares, which would enable it to grow more quickly than if it relied on its own resources or bank borrowings.
- **Trade Sale:** A trade sale involves the sale of all the company's equity, the managers retaining no stake. The owner-manager may only want to realise part of their investment so as to allow the refinancing of the company.
- **Sale to Management:** This involves the owner selling the business and its assets as a going concern to the existing management team

Bankruptcy

Bankruptcy occurs when an enterprise cannot meet its financial obligations - when it cannot pay its debts. Bankruptcy can be either voluntary or involuntary. In voluntary bankruptcy cases, the debtor applies for bankruptcy while in the case of involuntary bankruptcy cases, the creditors start legal proceedings against the debtors.

3. Factors Affecting Business Growth

Customer Loyalty

When company leaders strategize about sales growth, the focus is often on how to bring in new customers. While it is important to increase brand awareness and expand your customer base, you must also work to increase sales potential with your current customers. Look for opportunities to grow your profits with the customers you already have through add-on sales, customer loyalty programs, and referral business.

Smart Adoption of Technology

Technology is like fertilizer for the growth of your business. It can help you tackle tasks more efficiently, save on labor costs, and streamline processes. The challenge comes with selecting the right technology tools for your specific business goals. Proper alignment with the various facets of your business strategy is key. Look at ROI from multiple angles when choosing technology partners.

Commitment to Employee Training

Business growth doesn't occur in a vacuum. All your employees must have a standard baseline of knowledge from which they cultivate their own growth. This requires an online training platform that meets your needs today and can grow with you. By training online, you ensure consistent knowledge transfer to everyone and you can customize learning paths for each employee.

Social Responsibility
You may not see the direct line between social responsibility and business growth, but think of it this way: you get back what you put out. When your company adopts policies of social responsibility, you're impacting your community – and therefore your customers – in a positive way. For example, April is Alcohol Awareness Month. If you are a business that sells alcohol, use this month to refresh your training on responsible selling. If you are a business outside of the industry, use a cause like this as a springboard to give back to your community in a meaningful way.

Leadership
Just like what we see in nature during springtime, growth starts way below the surface. How your employees perceive you and your company mission determines their motivation to help you reach your goals. As a leader, you must pave the way to success for everyone.

8.2 BUSINESS LIFE CYCLES, STAGES AND CHALLENGES FACED BY AN ENTREPRENEUR AT EACH STAGE.

1. Development / Seed Stage
The development or seed stage is the beginning of the business lifecycle. This is when your brilliant idea is merely just a thought and will require a round of testing in its initial stage. In testing your business idea, you may conduct research regarding the industry, gather feedbacks from your friends, family, colleagues, or other industry specialists. This is when you are determining whether the business idea that you had is worth pursuing and if so it will be the birth of your new business.
Challenges

- Business Idea Profitability
- Market Acceptance
- Establishing Business Structure
- Accounting Management

2. Startup Stage
You've decided that your business idea is worth pursuing and have now made your business entity legal. In this stage, you've finished developing the products or services that your business has to offer and will begin marketing and selling. During this stage, you will be tweaking your products or services according to the initial feedback from your first paying customers and market demand. You will need to learn and adjust your business model to ensure profitability and that it meets your customer's expectations. By adjusting your business model, you'll be able to set your business on the right track.
Challenges

- Managing Cash Reserves
- Managing Sales Expectations
- Accounting Management
- Establishing Customer Base
- Establishing Market Presence

3. Growth / Survival Stage
Your business has endured through the initial stages of the business lifecycle and is currently in its growth or survival stage. The business is consistently generating revenue and adding new customers. These recurring revenue will help pay for your operating expenses and open up new

business opportunities. Currently, your business could be operating at a net loss or maintaining a healthy profit, but there could be some competition. This is also when you need to fine tune your business model and implement proven methodologies, sales model, marketing model, and operations model before expanding your venture for the mass market.

Challenges

- Dealing with Increasing Revenue
- Dealing with Increasing Customers
- Accounting Management
- Effective Management
- Market Competition

4. Expansion / Rapid Growth Stage

Your business has been a thriving company and established its presence in the industry. You have now reached the stage in which your business will expand and spread its roots into new markets and distribution channels. In order to start capitalizing on the success of your business, you will need to capture a larger market share and find new revenue. Therefore your business will experience a rapid growth in revenue and cash flow. The rapid growth stage takes advantage from the proven sales model, marketing model, and operations model set forth from your growth/ survival stage.

Challenges

- Increasing Market Competition
- Accounting Management
- Moving into New Markets
- Adding New Products/Services
- Expanding Existing Business

5. Maturity Stage

After a successful expansion, your business is on top of its industry and has matured. At the final stage of the business lifecycle, your business has a dominating presence in its market. Your business could still be growing but not at the substantial rate as you've previous experienced. Your current option is to decide to take a step back towards the expansion stage or to think of a possible exit strategy.

Challenges

- Increasing Market Competition
- Accounting Management
- Moving into New Markets
- Adding New Products/Services
- Expanding Existing Business
- Exit Strategy

Every stage of the business lifecycle brings new or pre-existing challenges. Solutions that may have worked for one stage may not work in another stage, which is why you should always adjust your business plan and operations accordingly.

At each stage, your business will rely on a financial source to help overcome the challenges your business faces. This is especially important to have an accounting management software in place so that you will have an accurate reflection of your current business finances. Having an accounting software in place will help you understand where your business is on the current business lifecycle and the details will allow you foresee upcoming challenges and to make better business decisions.

8.3 STRATEGIES FOR MANAGING GROWTH AND TRANSITION.

Internal growth strategies

Increasing market share

When they fi rst begin, most new ventures capture only a small portion of the market they enter. A useful growth strategy, therefore, involves increasing this share through greater marketing efforts of increased production capacity and efficiency. An increase in a product's market share is typically accomplished by increasing advertising expenditures, offering sales promotions, lowering the price or increasing the size of the sales force. Increased market penetration can also occur though increased capacity of efficiency, which permits a firm to have greater volume of product or service to sell. In a manufacturing context, an increase in product capacity can occur by expanding plant and equipment, or by outsourcing a portion of the production process to another company. For example, a firm that previously manufactured and packaged its products may outsource the packaging function to another company, and as a result free up factory space to increase production of the basic product.

New product development

New product development involves designing, producing and selling new products or services as a means of increasing firm revenues and profitability. In many fast-paced industries, new product development is a competitive necessity. New products must be developed to replace existing ones and to keep ahead of competitors as the customers' expectations develop. Whatever the nature of the product, its complexity and the resources involved in its launch, the key is to remember that a product is not a thing but rather a means to an end. The value of a product lies in the benefits it can bring to its users. The entrepreneur must apply the same market-oriented insights to the development of new products as were brought to the innovation on which the business was originally founded. Because new ventures have limited resources and competences, they should follow these guidelines to move toward the new products they seek: Focus on the markets they know the ones they are already serving.

Existing customers can provide valuable information about problems that need to be solved and how to position the product in the marketplace. Develop new product or services that are related to the ones the company already offers. Jumping off into 'left field' is not a useful option for new ventures. A much better strategy for obtaining growth is to stick with products or services that are closely linked to the ones they now produce or provide. Get pricing and quality right. New ventures cannot afford to find out the hard way that they have set the price for a product too high. Not only must new products meet customers' needs, they must also do so at a price that offers good value. Similarly, offering new products that are lower in quality than earlier ones can be a fatal mistake. Every product thus represents a balance between quality and pricing.

Improving existing products or services

Although the word 'new' is something many companies like to place on their packaging, the word 'improved' may sometimes be more appropriate. In order to attain high growth, it's not always essential to have completely new products or services; significant improvements in the existing ones may be as, or even more, effective. Improving an item means increasing its value and price potential from the customer's perspective. There are different ways to improve a product or service, such as enhancing quality, making it larger or smaller, making it more convenient to use, improving its durability or making it more up to date.

International expansion

I n its early stages, a business tends to serve a local geographic area. Many entrepreneurial businesses grow simply by expanding from original location to additional geographic sites. Ultimately, this might include expansion into the international arena through exporting, alliances or even setting up subsidiaries overseas. In fact, few businesses can achieve any real size without taking on the international option. Several factors have facilitated the development of international trade over the past decades. For example, tariffs and trade barriers have significantly decreased at the global level as a result of successive rounds of negotiations that led to the World Trade Organization (WTO). At the regional level, Australia, New Zealand and the ten members of the Association of South-East Asian Nations (ASEAN) signed a free trade agreement in 2009. Technological developments, such as the internet, and the increasing mobility of capital and people led to further globalisation of the economy.

External growth strategies

External growth strategies rely on establishing relationships with third parties, such as licensing, strategic alliances and acquisitions. In a sense, these strategies all involve leveraging the company's resources be entering into mutually beneficial arrangement with other organisations. An emphasis on external strategies usually results in a more fast-paced, collaborative approach toward growth than the slower-paced internal strategies. There are other advantages in external strategies, including getting access to proprietary products or services, obtaining technical expertise and generating economies of scale. There exist some disadvantages too. Cooperation with third parties can lead to a clash of corporate cultures, increased business complexity and the loss of organisational flexibility.

Strategic alliances

A strategic alliance is a partnership between two or more firms that is developed to achieve a specific goal. Various studies show that participation in alliances can boost a firm's rate of patenting, product innovation and foreign sales. Technological alliances and marketing alliances are two of the most common forms of alliances. Technological alliances feature cooperation in research and development, engineering and manufacturing. Research and development alliances often bring together entrepreneurial firms with specific technical skills and larger, more mature firms with experience in development and marketing. By pooling their complementary assets, these firms can typically produce a product and bring it to market faster and cheaper than either firm could alone. Marketing alliances, on the other hand, typically match a company that has a distribution system with a company that has a product to sell, in order to increase sales of product or service.

Licensing

Licensing is the granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions. Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party. Licensing can be a very effective way of earning income, particularly for intellectual property-rich firms, such as software and biotech companies. The terms of a license are spelled out through a licensing agreement, which is a formal contract between a licensor, the company that owns the intellectual property and the licensee the company purchasing the right to use it. Several types of licensing exist, but two that are increasingly important are technology licensing, and merchandise and character licensing. Technology licensing involves granting the right to use knowledge contained in a utility patent (a patent for a specific kind of product) to the purchaser. In contrast, merchandise and character licensing involves licensing a recognised trademark or brand that the licensor controls

Acquisitions
Another way to grow externally is to acquire other businesses in their entirety and 'add' them onto the existing business venture. There are three sorts of acquisition, and these differ in the way in which the integrated firm sits in relation to the venture in the value chain. The first type of acquisition is vertical integration. This happens when the venture acquires a firm that is either upstream or downstream in the value-production chain that is, it acquires a business that is a customer or a supplier. The acquisition of customers is referred to as 'forward' integration and that of a supplier as 'backward' integration. The second type of acquisition occurs when the venture integrates a business that is at the same level of value production as itself that is, a business that is, ostensibly at least, a competitor. The third type of acquisition occurs in the remaining cases when the integrated business is not a supplier, nor a customer nor a competitor. These might be referred as 'lateral' or 'unrelated' integrations.

8.4 FACTORS FOR SUCCESS AT EACH STAGE OF DEVELOPMENT.

1. Introduction Stage:
The introduction stage starts when the new product is first launched. Therefore, this stage is also known as 'start-up stage.' Introduction stage takes time; production takes place in limited scale; sale is apt to be slow and that too limited to a small area.
The enterprise is not faced with any type of competition during this stage. In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Even profits may not be earned during the start up stage.
The main concern of entrepreneur in this stage is to try to get more and more customers for the product. Therefore, more and more money is spent in promotional activities like sales promotion and advertising. Also much money is required to attract distributors to one's product and build inventories.
Promotional measures are designed especially to inform the prospective consumers of the new product and influence them to get ready to try it. The product is being just launched, hence no concern is shown on the refinement of the product. The entrepreneur lays more focus on those buyers who are the most ready to buy the product.
Since well begun is considered half success, an entrepreneur should, therefore, launch his/her enterprise with great consideration and concern. He/she should realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle.
If the pioneer chooses its launch strategy to make money over night, he/she is likely to sacrifice long-run revenue for the sake of short-run gain. The entrepreneur also needs to design different marketing strategies at different stages of product life cycle. The marketing strategy at the introduction stage is characterized as "try my product."

2. Growth Stage:
If the new product satisfies the market, then the product enters into the next stage called 'growth stage.' During this stage, the enterprise is known to and accepted by the market. The early adopters keep continuing to buy the product and the prospective buyers start following their lead, especially if they hear favorable word of mouth from the existing buyers.

As a result, production increases and sales start climbing quickly but supply falls far short of demand for the product produced by the entrepreneur. More production provides the benefit of economies of scale by reducing per unit cost of the product. As a result, profits increase.

Attracted by the opportunities for profit, the new competitors enter the market. In order to survive and thrive in the competitive market, the competitors will introduce the product with new features. This will lead to market expansion and also increase in the number of distribution outlets.
Sales jumps almost with the same price where it was or falls slightly. Promotional expenses remain almost at the same level or a slightly higher level. Educating the market remains still a major goal, but now the entrepreneur also needs to meet the competition in the market. Therefore, the entrepreneur at this stage tries to change its business strategy 'buy my product to try my product'.
The entrepreneur uses several strategies like improving product quality, adding new product features and models, and shifting advertising focus from building product awareness to building product conviction and purchase. By following above strategies, the entrepreneur can capture a dominant position in the product market and earns the maximum profits.

3. Expansion Stage:
This is the stage in which the entrepreneur makes efforts to expand his / her business by way of opening its branches and introducing new product lines. The enterprise is transformed from a single-line enterprise operating in a limited market to a multi-line company penetrating new markets with new products and services. Product and service lines are broadened through innovation and development.
Business activities at this stage are diversified to reap the maximum benefits from the business opportunities available in the market. Delegation of authority ensues during the expansion stage. Entrepreneur needs to be able to accept leadership roles quite different from their founding roles. One such role requires leadership vision evidenced through a higher level of aggressiveness.

4. Maturity Stage:
At some point of product life cycle, the product's sale starts slowing down mainly due to increasing competition. As a result, profits tend to decline. Such a stage is called 'maturity stage.' The maturity stage normally lasts longer than the previous stages. As such, majority of enterprises are found in maturity stage.
In such stage, marginal enterprises which find difficult to withstand the competition start dropping out and finally leave the market. Different enterprises adopt different marketing strategies to overcome the challenges posed by the maturity stage. Some enterprises adopt methods such as 'trading in' to survive for some more time in the market.
Enterprises can try to redesign their marketing mix-improving. They can improve sales by changing some elements of marketing mix. They can also slash down the prices of their products to attract new customers and competitors' customers. They can develop and launch a better advertising campaign or use aggressive sales promotions like trade deals, and contests.
The enterprises can also move into larger market channels by way of using mass merchandisers, if these channels are growing. Finally, the enterprises can offer new or improved services to their buyers compared to what the competitors have been offering. Although many products in the maturity stage appear to remain unchanged for long periods.
Most of the enterprises in this stage actually try to evolve to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products – a good offense is the best defense. They should consider modifying the market, product, and marketing mix.

In modifying the market, the enterprise tries to increase the consumption of the current product. It looks for new users and market segments, as was done by Johnson & Johnson by targeting the adult market with its baby powder and shampoo. Amazon.com does differently by sending permission-based e-mails to its regular customers letting them know when their favorite authors or performers publish new books or CDs.

Yet another way to increase sale of one's product is by modifying the product-changing characteristics such as quality, features, or style to attract new users and to inspire more usage. It might improve the product's quality and performance, its durability, reliability, speed, and taste. It can also improve the product's styling and attractiveness. For example, Hyandai a car manufacturing company restyles its i10 car to attract buyers who want a new look. Similarly, the producers of consumer food and household products introduce new flavors, colors, ingredients, or packages to revitalize consumer buying.
Even the company might add new features that expand the product's usefulness, safety, or convenience. For example, Sony keeps adding new styles and features to its Walkman and Discman lines, and Volvo adds new safety features to its cars.

5. Decline Stage:
This is the final/last stage of product life cycle of an enterprise. At this stage, the enterprises find it difficult to survive either due to the gradual replacement of enterprise product or due to some new innovations on account of change in customer behaviour. The sales of the most of the products abruptly falls and brands eventually dip.
The decline may be slow, as in the case of oatmeal cereal or rapid, as in the case of phonograph records. Sales may plunge to zero, or they may drop to such a low level where they continue for many years. Sales may decline for more than one reason like technological advances, shifts in consumer tastes, and increased competition. Enterprises start incurring losses at an increasing rate.
In such situations, some entrepreneurs prefer to withdraw from the market and close their shutters. This is characterized as the 'decline stage.' Some remaining entrepreneurs may initiate pruning their product offerings. They may also opt for cut in promotional measures and reduce the prices of their products to remain in the market.

There may be entrepreneurs who decide to maintain their product brands without change in the hope that some of the competitors will leave the market. Procter & Gamble presents one such example which made good profits by remaining in the declining liquid soap business as some of the competitors withdrew themselves from the market.
The most of the entrepreneurs drop the products reached to their weak position, i.e. decline in sale. The reason is that carrying a weak product over the period may cause one type or other costs to the entrepreneur. While decline or negative cost is open and easily perceptible, there are hidden costs as well.
These may include too much of management's time, frequent price and inventory adjustments, more attention to sales promotion, and most importantly a product's failing reputation can cause customer concerns about the enterprise and its offerings.
Thus, carrying on a weak product's biggest cost may well lie in the future. Besides, keeping weak products also delays the replacements of products, creates a lopsided product mix, impinges upon the current profits, and weakens the enterprise's foothold to stand in the market in future.

8.5 BUSINESS AMALGAMATION

Amalgamation is defined as the combination of one or more companies into a new entity. It includes:

- Two or more companies join to form a new company
- Absorption or blending of one by the other

Franchises

The **franchiser** licenses the rights to its name, operating procedure, designs, and business expertise to another business called the **franchisee**.

A **franchise agreement** can provide the franchisee with

- a ready made, fully operational business
- brand recognition that is appealing to consumers

Requirements before a franchise is awarded may include

- paying the **franchise fee**
- agreeing to pay a monthly percentage fee as well as any national or local advertising costs
- purchasing all supplies centrally from the franchiser
- participating in franchiser standards training

Mergers

Mergers happen when two or more companies join together: one of the businesses usually wants to purchase a controlling interest in the other company, or both business have combined interests. A merger involves the total absorption of a target firm by the acquirer. As a result, one firm ceases to exist and only the new firm (acquirer) remains.

Acquisition

Acquisition refers to the takeover of one entity by another. An acquisition involves one firm buying only a portion of another firm. The acquisition may happen to acquire assets or an altogether different segment of the other firm.

Integration

Business integration is a strategy whose goal is to synchronize information technology (IT) and business cultures and objectives and align technology with business strategy and goals. Business integration is a reflection of how IT is being absorbed as a function of business.

Vertical integration

Vertical integration extends a firm's competitive scope within ***same industry***

- ***Backward*** into sources of supply
- ***Forward*** toward end-users of final product

8.6 MILESTONES IN ENTERPRISE DEVELOPMENT

1. Profitable Business Model

A business model should tell the story of how your entire business works. The story should focus on <u>three core questions</u>:

- Who is your client?
- What does your client value?
- How do you deliver that value at the right cost?

All of those questions add up to creating a profitable business model. If you nail those questions, you're well on your way.

First Repeat Client

Your next business milestone involves that sweet, sweet exchange of currency. Landing your first repeat client (sometimes called an anchor client) will give you confidence in your business and the motivation you'll need to keep going. The key word here is "repeat."

You may earn that first repeat client through personal recommendations, an existing contact or cold calling. Landing your second repeat client will take understanding exactly who they are and where they spend their time – both online and off.

Realistic, Scalable Marketing Strategy

Marketing is the lifeblood of your business. Businesses owners sitting around waiting for clients to call are destined to fail. Smart marketing can actively bring in new business instead of simply reacting.

There was a time when businesses would hire a marketing firm to handle everything. While many still do this, and you can if you have the budget, it will benefit most entrepreneurs to tackle as much of the marketing as they can and outsource once they know what works.

Delegation and determination are two of key "talents" of entrepreneurs strengthened by taking an active role in your marketing campaign. You'll have to learn the new tools that make it all possible, and put in regular time to market your business.

Once you understand the tools at your disposal, create a scalable marketing strategy around them. Scalable means that you can amplify the effect without amplifying the costs by the same degree.

Taking advantage of internet marketing techniques and working with the right people will help you create a marketing strategy that you will take to the bank.

Hire and Train a Solid Team

Starting off as a one-man operation is great. However, with the exception of a few lucky business models, it will only get you so far.

You'll need to hire and train a team. This exciting milestone will grow your business by leaps and bounds

Put in the time to create a stellar employee training program before you even hire your first employee. Instead of stumbling through it, and possibly wasting your time, energy and money with the wrong people, this will enable to set up employees for success.

You can also test the waters by hiring a virtual assistant or a contractor. They can take a lot off your plate without being a formal team member.

A virtual assistant can help you establish that highly sought after work/life balance that all entrepreneurs need.

Gain Authority in Your Industry

At this point, you're making money and you have a great team in place. Your next milestone is to become an authority in your industry.

Even if your business doesn't exist entirely online, the Internet is your fastest route to becoming an authority. Create the type of content that your industry needs and will appreciate, and give it away for free. Your peers will see that you are knowledgeable, and over time, you'll become an authority.

Get involved in local events that allow you to share your expertise. You may even wish to seek out speaking events and industry-wide conventions.

Coupling speaking engagements with stellar online content will turn you into a sought-after authority.

Reach a Significant Number of Sales

If you've developed a profitable business model, created a scalable marketing strategy and found the perfect team – you're on pace for lasting success. The final business milestone to is to reach is a significant number of sales.

Set a specific goal for sales. Without a goal, the business will stagnate. Having a goal will help to continue moving toward your target growth.

Determine an ambitious, yet achievable, dollar figure for your business. Obviously, the numbers will vary depending on the nature of your business. Only you will know what number to set as your target, but once set, make sure everyone on your team knows about it. Make it something you strive for together.

Study Unit 9

Entrepreneurial awareness and motivation

Contents

1. Procedures involved in starting a business
2. Sources of business finance
3. Legal forms of business ownership
4. Legal aspects in business: licenses, labour laws, health and safety rules
5. Business contracts and tendering procedures
6. Motivational theories of entrepreneurship
7. Incentives for aspiring entrepreneurs

9.1. PROCEDURES INVOLVED IN STARTING A BUSINESS

1. EIGHT QUESTIONS TO ASK BEFORE GOING INTO BUSINESS

Why Start Your Own Business?

People who desire to be the boss and take responsibility for making decisions often decide to run their own business. They believe it is the best way for them to achieve financial independence, to allow them to use their skills and knowledge, and to be creative.

2. What Different Types of Businesses Are There?

service business	retail business
not-for-profit organization	manufacturing business

3. What Are Your Skills and Interests?

Different ideas, skills, and knowledge can be used to start a new business. Two popular ones are home-based or Web-based businesses.

- **Should Your Business Be Home-based?**

Technology has changed how SOHO ("small office, home-based") businesses operate. Computers, scanners, and Internet access are a few of the tools that home office businesses use today to be successful.

- **Should Your Business be Web-based?**

E-commerce ("electronic commerce") is a marketplace where consumers and sellers meet without face-to-face contact. In the "real world," products are tangible. Products and services are sold to us by personal contact with the sellers. In cyberspace or online, we do not interact with products or come face-to-face with the sellers. Our experience with services is limited or non-existent. Consumers are often reluctant to purchase online due to unreliable or dishonest businesses and privacy issues.

4. Where Can You Find Information About a Business?

Businesses require accurate and current information to make good decisions. Important resources to find information include

5. What Are the Start-up Costs?

Capital resources to run a business are available through **debt financing** referred to as borrowing money to run the business. Using your savings or investor savings called **equity financing** is an alternative way to fund a business.

6. What Level of Risk Can You Expect?

Even with research and planning, business can be risky. Risks or threats beyond and within the owner's control can put the business in financial difficulty.

7. What Steps Are Involved in Running This Business?

Some types of businesses, such as manufacturing, are **complex**. A complex business requires many people with different skills to successfully start and operate it.

8. What Resources Will You Need?

Forecasting is determining the resources the business requires and how much financing it needs to obtain them.

Revenue is the amount of money gained from the sale of products or services.

2. REGISTRATION OF A BUSINESS NAME

Whatever form of business you may choose, you will need to register the name of your business. The application form and cost of registering a business varies from country to country.

Rwanda has the fewest procedures and fastest processes in the whole of East Africa and possibly the world to register and start a business Below are the steps followed to register a business in Rwanda You can register your business online at **http://org.rdb.rw/** or at the Office of the Registrar General which is a department within the Rwanda Development Board(RDB) located in the Kigali the capital city.

The filling of the consolidated application form can be performed via the online registration service. Rwandan businesses can be registered as sole proprietorship, a company or a foreign subsidiary/branch.

Registering an Enterprise

- Fill and submit online application
- Obtain a certificate of Enterprise registration

Requirements

For Rwandans

1. National ID number

- by filling in the national ID number, the personal details are automatically filled in the system

2. Contact details

- of the sole trader or of an authorized representative

3. E-mail account

- of the sole trader or of an authorized representative

4. Passport size photo (original + Simple copy)

- scanned copy

5. Online application (original)

Cost: Free

Total duration: 0 day – 1 day

For foreigners

1. Passport (Simple copy)

- of the sole trader or of an authorized representative

2. Contact details

- of the sole trader or of an authorized representative

3. E-mail account

- of the sole trader or of an authorized representative

4. Passport size photo (Simple copy)

- scanned copy

5. Online application
Cost: Free
Total duration: 0 day – 1 day

Registering a company in Rwanda
Domestic Company Registration

- Fill and submit online application
- Obtain a certificate of domestic company registration

Requirements

- Copy of ID/Passport
- Complete two copies of Memorandum of Association Art 14 (downloaded on our website of RDB)
- Proof of identity

Cost: Free
Total duration: 0 day – 1 day

Opening a branch/ Foreign Company

- Fill and submit online application
- Obtain a certificate of foreign company registration

Requirements:

- Power of attorney to present the company in Rwanda.(Notarised)
- A duly authenticated copy of the memorandum Articles of Association. (Notarised)
- Certificate of Registration/Incorporation issued by the registration authority in the country of incorporation. (Notarised)
- Notarised resolution from the authorized agency authorizing to open a branch.
- Passport copies of the shareholders/directors.
- List of directors residing in Rwanda (at least One)
- Power of attorney for company registration
- Proof of identity
- Articles of association of the holding company

Cost: free
Total duration: 0 day – 1 day

Taxpayer Registration
Any person who sets up a business or other activities that may be taxable is obliged to register with the Tax Administration within a period of seven (7) days from the beginning of the business activity.
A company may be owned by an individual or group of persons, registration is done Rwanda Development Board (RDB) via online services. This service is immediate and free of charge. After company registration, certificate is issued by RDB.

9.2. SOURCES OF BUSINESS FINANCE

FINANCE

Finance is the basic requirement of any business. It is considered as the lifeblood of businesses. It is the amount of money, funds or capital required for the smooth functioning of any business. It is required at every stage, from promotion to liquidation. Adequate finance is required for orderly functioning of a business. Promoters need to calculate financial needs through a financial plan.

BUSINESS FINANCE

Business finance is a process of raising, providing and managing of all the money that is to be used in connection with business activities. Business Finance is the finance required for conducting business activities. Modern businesses require huge amount of fixed and working capital for conducting business.

1. AVENUES FOR FINDING STARTING CAPITAL

Self

- Personal Savings
- Utilizing underutilized assets
- Money rounds
- Maximizing benefits from suppliers

Informal Sector

- Family, Friends and others
- Business Angels
- Money Lenders
- Micro-credit institutions

Formal Sector

- From financial Institutions
    - Overdraft facilities
    - Leasing
    - Venture Capitalists e.g Grofin
    - Bank Loans
    - Mortgages
- From Government Programs
    - Private Sector Foundation (PSF-BUDS)
    - Bonabagagawale through Savings and Credit Co-operative societies (SACCos)
    - Grants

FACTORS AFFECTING THE CHOICE OF FUNDING

- Advice available
- The amount required
- The cost of the money
- The risk involved
- The length of time for which the money is needed
- Loss of control

DIFFERENT SOURCES OF BUSINESS FINANCE

Source	Advantages	Disadvantages
Owner's funds	Owner keeps control	Could lose everything if business fails
Retained profit	Owner(s) make decision	Reduces reserves and possibly future dividend payments. May be insufficient for needs.
Government grant	May not need to be repaid though spending closely checked	Complicated and restricted to certain areas/reasons
Hiring and leasing	Saves paying 'up-front' for an asset. Asset may belong to business eventually.	Only useful for obtaining assets. Costs more than outright purchase.
Issuing shares	Large amounts available, never repaid	Shareholders paid dividends
Selling assets	Converts unused items into capital	Only appropriate if have unused assets!
Debentures	Large amounts available and owner keep control	Owner pays fixed rate of interets whether he/she makes profit or not
Venture capital	Large amount may be available + advice	Owner may lose some control over business

The role of Microfinance in financing small businesses

Micro financing, according to Conroy is the delivery of financial services to poor and low income households with limited access to formal financial institutions. Microfinance is can also be described as banking for the underprivileged.

If you're starting a new business, you have to decide which legal form of ownership is best for you and your business. Do you want to own the business yourself and operate as a sole proprietorship? Or, do you want to share ownership, operating as a partnershipor a corporation? Before we discuss one by one of types of ownership, let's address some of the questions that you'd probably ask yourself in choosing the appropriate legal form for your business.

- In setting up your business, do you want to minimize the costs of getting started? Do you hope to avoid complex government regulations and reporting requirements?
- How much control would you like? How much responsibility for running the business are you willing to share? What about sharing the profits?
- Do you want to avoid special taxes?
- Do you have all the skills needed to run the business?

- Are you likely to get along with your co-owners over an extended period of time?
- Is it important to you that the business survive you?
- What are your financing needs and how do you plan to finance your company?
- How much personal exposure to liability are you willing to accept? Do you feel uneasy about accepting personal liability for the actions of fellow owners?

Business licenses are permits issued by government agencies that allow individuals or companies to conduct business within the government's geographical jurisdiction. It is the authorization to start a business issued by the local government. Business licenses vary between countries, states, and local municipalities.

Different Forms of Business Organization
There are many ways in which an enterprise can get up and running. The section looks at the five main types of commercial enterprise (as suggested by Lynch and Roche 1999), which are as follows:

- Sole trader
- Partnerships
- Limited Liability Companies (Private and Public)
- Franchises

Sole-Trader
Sole traders include farmers, tradesmen shopkeepers, and individuals who trade under their own name. As these businesses grow they can become difficult to manage and they may also find it difficult to raise finance. The characteristics of this form of business include:

- **Unlimited Liability** - owner is personally responsible for all the debts of the business
- **Taxation at a Personal Level** – and general public does not have access to the accounts of the business

Partnerships
A partnership is defined as an association of persons, not exceeding 20 (10 in the case of banking partnership), formed in order to realise profit through a business venture. Partnerships are particularly common in profession such as Law and Accountancy.

Special Partnerships
Limited partnership-composed of at least one general partner and at least one limited partner
Limited liability partnership-a special type of limited partnership, in which all partners are limited partners
Master limited partnership-a partnership whose shares are traded on stock exchanges, just like corporations

Limited Liability Companies (Private and Public)
A company is a business organization in which ownership is transferable through the buying and selling of shares. A limited liability company is one in which shareholders and investors are liable only for debts equalling the sum invested. This is the most common form of business enterprise for medium and large sized firms. The main advantage of limited liability companies is the capacity to attract sums of capital from various sources. Other advantages include taxation of limited companies at a specific corporation tax rate usually lower than the rate of personal income tax.

The main disadvantages are that profits are paid out as dividends, and the owners may lose control of the company.

Franchises
A franchise is an arrangement whereby a franchisee is permitted by the franchiser to sell or distribute trademarked goods or services. Example McDonalds (fast food). Franchises are often seen as the simplest way of getting into business, as the entrepreneur or franchisee can draw on the expertise, support and financial assistance of the existing business. Strict rules for every aspect of the business are written into the franchise agreement to ensure the products or services offered remain recognisably those of the franchiser. There is therefore little room for manoeuvre in terms of making the business distinctive. In addition, the cost of securing a well-known franchise can be very high, and royalty payments based on sales can be challenging.

9.3 LEGAL ASPECTS IN BUSINESS: LICENSES, LABOUR LAWS, HEALTH AND SAFETY RULES

Business licenses are permits issued by government agencies that allow individuals or companies to conduct business within the government's geographical jurisdiction. It is the authorization to start a business issued by the local government. Business licenses vary between countries, states, and local municipalities.
Business license requirements vary by city, county and state. Although not all locations require a general operating license, they do require specialty licenses depending on the type of business your run. Further, many industries are regulated by state agencies that often require additional licenses or permits. As a result, its possible that a business will require more than one license.

TYPES OF LICENSES
General Operating Licenses
Many cities and counties require a basic operating license that not only registers your business, but also is used to track income and business property for tax purposes. However, not all cities or counties require a general business license. For example, the city of Houston does not issue general operating licenses.

Industry Licenses
Certain types of business require special licenses or permits issued by the city, county or state. Because these vary, you want to check with your local and state business regulating agencies for details. For example, the city of Houston requires special licenses for antique sellers and street vendors. Further the state of Texas regulates many industries, such as health care, food services and real estate through licenses and permits.

Sales Tax Permits
In states that collect sales tax, business that sell tangible goods are usually required to obtain a sales tax permit. Through the permit, the business is allowed to charge sales tax, which it then pays to the state. Sales tax permits are issued through the state's taxation, treasury or comptroller's office.

HEALTH AND SAFETY RULES
In general, health and safety laws apply to all businesses. As an employer, or a self-employed person, you are responsible for health and safety in your business. Health and safety laws are there to protect you, your employees and the public from workplace dangers.

LABOR LAW

All business owners need to understand the labor laws that govern how workers must be treated. If you want to avoid legal battles, it's essential to know which laws apply to your business so that you can follow them to the letter. Labour law (also known as labor law or employment law) mediates the relationship between workers, employing entities, trade unions and the government. Collective labour law relates to the tripartite relationship between employee, employer and union. Individual labour law concerns employees' rights at work also through the contract for work. Employment standards are social norms (in some cases also technical standards) for the minimum socially acceptable conditions under which employees or contractors are allowed to work. Government agencies (such as the former US Employment Standards Administration) enforce labour law (legislature, regulatory, or judicial).

9.5. BUSINESS CONTRACTS AND TENDERING PROCEDURES

Business contacts

A business contract is a legal agreement between you and another party, and may be used in situations where services are rendered for a fee or specific duties are required to be performed. To be legally valid, a contract must contain several key elements.
Key elements ara:

Parties

The parties of a contract are simply the entities involved in the agreement. These can be the name of a person or a separate business entity.

Consideration

The consideration in a contract spells out what each party stands to gain from the business arrangement. Continuing with the freelance photographer example, the consideration received by the hiring entity is the finished photographs, and the photographer's consideration is the payment received for providing the service. It could also indicate what expenses may be paid by the hiring entity, such as the cost of the photographer's travel to the site of the shoot.

Terms And Conditions

The terms and conditions of a business contract specify the rights and obligations of each party. These can vary widely depending on the nature of the business arrangement. Common examples can include the amount of payment, when payment is due, the specific nature of the work involved and how long the agreement will remain in effect. Terms can also include possible remedies if one party is found to be in breach of the contract.

Competent Parties

A contract may be deemed invalid if it can be shown that one of the parties was mentally incompetent at the time of entering into the agreement. A contract may also be voided if one party was under the influence of drugs or alcohol and the other party was aware of the first party's condition.

Legal Purpose

A business contract must be for a legal purpose to be considered valid. If, for example, one party knowingly contracted to deliver stolen merchandise for a second party, the second party would have no legal recourse if the first party failed to deliver the goods to their intended destination.

TENDERING PROCURES

Tendering is the process of making an offer, bid or proposal, or expressing interest in response to an invitation or request for tender for a particular need, such as works contracts, supply of goods, services, and select an offer or tender that meets their needs and provides the best value for money.

This Standard Bidding Document (SBD) has been prepared by the Rwanda Public Procurement Authority (RPPA) for use by Procuring Entities (PEs) for the procurement of small works. The procedures and practices presented in this SBD have been developed and revised to reflect the requirements of the Law N°12/2007 of 27/03/2007 on Public Procurement as modified and completed by the Law N°05/2013 of 13/02/2013 and the Implementing Regulations No. .... and the best international procurement practices.

This SBD for the Procurement of works is suitable for use under both International and National open competitive bidding with or without pre-qualification. It is also suitable for the restricted tendering methods.

This SBD is comprised of nine sections, namely; Instructions to Bidders, Bid Data Sheet, Bidding forms, General Conditions of the Contract, Special Conditions of the contract, Specifications, Drawings, Bills of Quantities and forms.

Before using this SBD, the user should be familiar with the Public Procurement Law as modified and completed to date, Implementing Regulations and Procedures which have been prepared to provide guidance to public officials in the conduct of the procurement process.

The Rwanda Public Procurement Authority welcomes any feedback or comments from the users of this SBD which will assist in improving this document.

9.6. MOTIVATIONAL THEORIES OF ENTREPRENEURSHIP

Achievement motivation theory of entrepreneurship

According to McClelland, entrepreneurs do things in a new and better way and make decisions under uncertainty. Entrepreneurs are characterized by a need for achievement or an achievement orientation, which is a drive to excel, advance, and grow. By focusing in on a particular need, he was able to challenge the then prevailing great man theory of entrepreneurship as well as religious theories of entrepreneurship. He believed that entrepreneurship is learned and that such learning can be encouraged fruitfully.

Study Unit 10

Business plan development

Contents

10.1. THE DEFINITION AND IMPORTANCE OF A BUSINESS PLAN

Definition

A business plan is a document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realized. It is the road map to the success of your business.

Importance of Business plan

The purpose of writing a business plan is to show how the business is to be setup and managed. It sets targets for each phase of the development of the business, it clearly outlines the financial requirements of the business, and in addition it details the marketing strategy to be adopted.
The key Needs for a Business Plan are:

- Converts pipe dreams into realities by forcing you to carefully think about the specifics of your business.
- It sells out your business to stake holders.
- Enables thinking through policies, procedures and strategies that enable the business achieve its objectives.

In essence the business plan should show that:

- The venture is financially viable
- There is a market for the product or service
- The entrepreneur is able to manage the business

10.2. THE COMPONENTS OF A BUSINESS PLAN

It is often written with potential investors in mind as well as for the benefit of the entrepreneur. In general a business plan should include the following:

- Executive Summary
- Table of Contents
- Company Description
- Product Description
- Customer Analysis
- Competitor Analysis
- Industry Analysis
- Business Strategy
- Operations Plan
- Marketing Plan
- Financial Plan
- Critical Risks
- Development Plan
- Appendices.

Executive Summary

- A miniature of the business plan
- It covers the key areas of the plan.

How to write it:

- Write it last, but presented first.
- Present a summary of the critical parts
- Sustain interest in the reader
- Limit it to 1 page

Company description
This section covers the following;

What are the basic details of your business?

- Company name, address and location
- Form of ownership and legal status
- Date when the company was founded
- Development stage the business – (start up or expanding)
- Benefits of your business to Rwanda

This section covers the following from your strategic management session;

- **Vision** – what is your ultimate image of your business look like in ten years?
- **Mission** – how do you intend to actualize your vision? (strategy)
- **Objectives** – both long term and short term, should be measurable
- **Team** – staffing and responsibilities

Company Team
This section should answer the following questions;

- Who are the key people on your management team?
- What management positions do you need to fill in the near future?
- What is the makeup of the rest of your staff?
- What is the staffing pay structure like?
- The organization structure?

Product Description
This section covers the following from your marketing session;

- Your product or service
- Unique features

Customer Analysis
This section covers the following from your marketing session;

- Target Customers
- Important Product or Service Attributes for your Target Customers

Competitor Analysis
This section covers the following from your marketing session;

- Your Competitors
- Competitors' Profile
- Learning from Competitors

Industry Analysis
This section covers the following from your marketing session;

- In what industry does your business operate?
- Is your industry growing? Trends?
- Are there business opportunities in the industry?
- What are the challenges, if any?
- How do you intend to deal with the challenges?

Business Strategy
This section covers the following from your strategic management session;

- How can you outperform your competitors?
- What are your competitive advantages and how can you use them?
- What are your strengths, weaknesses, threats, opportunities

Operations Plan
This section covers the following;

- Input Factors (location, premises, furniture, machinery, etc)
- Production/Manufacturing processes
- Output and Performance Indicators
- Delivery and Payment
- Quality control
- Potential Problems and Preventive Measures

Development Plan
This section covers the following from the session on Planning and Implementing Plans;

- Steps and Milestones
- What do you want to accomplish in the next weeks, months, years?

Marketing Plan
This section covers the following items from your marketing session;

- Product
- Price
- Promotion
- Place / Distribution
- People
- Process

Financial Plan
This section covers the following from your start up capital and book keeping sessions;

- Investment Plan
- Financing plan – debt vs equity
- Projected Profit and loss statement
- Balance sheet

Critical Risks
This section covers the following from your overcoming barriers sessions;

- Critical Risks in the Pre-Launch Phase
- Critical Risks in the Post-Launch Phase

Appendices
An appendix (plural: appendices) is a section at the end of a book or essay containing additional information. You should use it to cover data or details that aren't essential to your work, but which could provide useful context or background material.

10.3. POTENTIAL RISKS AND MITIGATION MEASURES

1. POTENTIAL RISK CATEGORIES

- Social & Ethics Risk
- Financial Risk
- Operational Risk
- Information Technology Risk
- Compliance to Laws and Regulations Risk

2. STEPS OF THE RISK MANAGEMENT PROCESS

Step 1. Communicate and consult.
Communication and consultation aims to identify who should be involved in assessment of risk (including identification, analysis and evaluation) and it should engage those who will be involved in the treatment, monitoring and review of risk.

Step 2. Establish the context.

- Establish the internal context
- Establish the external context
- Establish the risk management context
- Develop risk criteria
- Define the structure for risk analysis

Step 3. Identify the risks.
Before beginning a risk identification exercise, it is important to define the limits, objectives and scope of the activity or issue under examination.

Step 4. Analyze the risks.
Risk criteria allow a business to clearly define unacceptable levels of risk. Conversely, risk criteria may include the acceptable level of risk for a specific activity or event.

In this step the risk criteria may be broadly defined and then further refined later in the risk management process.

Step 5. Evaluate the risks.
Isolate the categories of risk that you want to manage. This will provide greater depth and accuracy in identifying significant risks.
The chosen structure for risk analysis will depend upon the type of activity or issue, its complexity and the context of the risks.
Risk evaluation involves comparing the level of risk found during the analysis process with previously established risk criteria, and deciding whether these risks require treatment.
The result of a risk evaluation is a prioritized list of risks that require further action.
This step is about deciding whether risks are acceptable or need treatment.

Step 6. Treat the risks.
Risk treatment is about considering options for treating risks that were not considered acceptable or tolerable at Step 5
Risk treatment involves identifying options for treating or controlling risk, in order to either reduce or eliminate negative consequences, or to reduce the likelihood of an adverse occurrence. Risk treatment should also aim to enhance positive outcomes.

Step 7. Monitor and review.
Monitor and review is an essential and integral step in the risk management process.
A business owner must monitor risks and review the effectiveness of the treatment plan, strategies and management system that have been set up to effectively manage risk.

MITIGATION MEASURES
For Negative Risks or Threats:
1. Avoid

- You can evade it altogether
- Eliminate the cause of the risk event
- Change the project/business/organization plan to protect the project objectives from the risk event
- Risk avoidance essentially eradicate the risk by eliminating its cause

2. Transfer

- You transfer the risk and the consequences of that risk to a third party
- The risk hasn't gone away, but the responsibility for the management of that risk now rests with another party
- Most companies aren't willing to take on someone else's risk without a little cash thrown in for good measure (insurance, contract, warrantees, etc)

3. Mitigate

- You attempt to reduce the probability of a risk event and its impacts to an acceptable level
- This can be done by:
    - Performing more tests
    - Using less complicated processes

- Creating prototypes
- Choosing more reliable vendors

For Positive Risks or Opportunities:
4. Exploit

- Exploit the risk event for positive impacts
- Reducing the amount of time to complete the project by bringing on more qualified resources
- Providing better quality than originally planned

10.4. BUSINESS WORK PLAN

A work plan is an outline of a set of goals and processes by which a team and/or person can accomplish those goals, and offering the reader a better understanding of the scope of the project. Through work plans, you break down a process into small, achievable tasks and identify the things you want to accomplish. The steps of developing a business work plan are the following:

- Identify the purpose for your work plan.
- Write the introduction and background.
- Determine your goal(s) and objectives
- Consider ordering your work plan by "SMART" objectives.
- List your resources.
- Identify any constraints
- Who is accountable.
- Write your strategy

5. ASSEMBLING RESOURCE AND MARKET ENTRY

When funding has been arranged it is then possible to move the venture forward. It is critical that a realistic timeframe is established for market entry plans. The timeframe for starting the business will depend on the assembly of a number of resources. Factors, which need to be addressed, include:

- Finding funding sources
- Finding suppliers and distributors
- Finding suitable premises
- Recruiting and organising staff
- Acquiring machinery and technology
- Marketing and Venture launch
- Winning customers

Two key aspects for any start-up business are cashflow and credit control. If the money does not come in, there will not be any working capital to fund the next phase of production and marketing.

SOURCES OF FINANCE

The two main sources of finance for an enterprise are debt financing which involves obtaining a bank loan and equity financing where others are given a stake in the business in return for providing capital. Also Government funding in the form of grants are available.

MARKET STRATEGY

An important consideration is the market strategy to adopt. The main options (Porters generic strategies) include:

- **A low cost strategy:** By adopting a low cost strategy a company may be able to under-cut the competition and gain market share. However the competition can also reduce price and may have the resources to sustain lower prices for a long period of time.
- **A focused or niche market strategy:** This is where a company focuses on a segment of the market that has some special needs. This may be a good strategy for a small company. A key consideration here is whether the niche is large enough to support the business.
- **A broad mass-market strategy:** This strategy is where the company tries to appeal to the broad mass of customers in the market. The down side of this approach is amount of competition in the market but if a firm is successful they will be able to achieve economies of scale and will have good growth opportunities

Current issues in entrepreneurship • Taxation, trade exhibitions, e-commerce, globalization, outsourcing • Entrepreneurship Education & Training • Social Entrepreneurship (NFP- Not for Profit)

Study Unit 11

Current issues in entrepreneurship

Contents

11.1. TAXATION, TRADE EXHIBITIONS, E-COMMERCE, GLOBALIZATION, OUTSOURCING

11.2. ENTREPRENEURSHIP EDUCATION & TRAINING

Entrepreneurship Education and Training is about the development of personal skills and qualities so that people of all ages gain knowledge and understanding of the way in which the economy works and reacts to market forces.
This involves approaches to the development of:-

- Creativity
- Problem Solving
- Team working
- Taking calculated risks
- Communication Skills
- Leadership
- Decision Making
- Time management

Entrepreneurship Education and Training identifies the role of the entrepreneur in society. Entrepreneurship education fosters entrepreneurship, which in turn results in positive outcomes on individuals, firms and society. The growing interest in entrepreneurship education is witnessed by the vast array of publications in books and journals.
Some jurisdictions offer tax incentives to start up enterprises, it is strongly recommended to check with your accountant, revenue authorities about such incentives.

11.3. SOCIAL ENTREPRENEURSHIP

Social entrepreneurship is the use of the techniques that start up companies and other entrepreneurs to develop, fund and implement solutions to social, cultural, or environmental issues.
Social Entrepreneurship create innovative solutions to immediate social problems and mobilizes the ideas, Capacities, resources, and social arrangement required for sustainable social transformation.
Focus Areas of Social Entrepreneurship

- Enhance a person‘s ability to improve her or his economic well-being and personal dignity through opportunity.
- Harness aid to be more accountable, transparent and solutions-oriented, for lasting development.
- Enable access to and ensure use of reliable, affordable and appropriate healthcare in disadvantaged populations.
- Address issues of sustainable productivity not beneficiary by beneficiary, but system wide.
- Lay the foundation for peace and human security.
- Harness the capital and consumer markets that drive change by considering all costs and opportunities.
- Transform the way water is managed and provided, long-term, for both people and agriculture

Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,

- Engaging in a process of continuous origination, modification, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the populations served and for the outcomes created.

Role and Importance of Social Entrepreneurship

- Employment Development The first major economic value that social entrepreneurship creates is the job and employment Estimates ranges from one to seven percent of people employed in the social entrepreneurship sector.
- Innovation / New Goods and Services Social entrepreneurs develop and apply innovation important to social and economic development and develop new goods and services. Issues addressed include some of the biggest societal problems such as HIV, mental ill-health, illiteracy, crime and drug abuse which, importantly are confronted in innovative ways.
- Equity Promotion social entrepreneurship fosters a more equitable society by addressing social issues and trying to achieve ongoing sustainable impact through their social mission rather than purely profit-maximization. Another case is the American social entrepreneur J.B. Schramm who has helped thousands of low-income high-school students to get into tertiary education.

Study Unit 12

Essential communication skills

Contents

12.1. COMMUNICATION PROCESSES AND BARRIERS

Communication can be defined as the process by which ideas, information, opinions, attitudes, etc. are conveyed from one person to another.

Organizational communication is about sharing information with others, listening to and receiving information from all levels of the organization.

1. IMPORTANCE OF COMMUNICATIONS IN ORGANIZATIONS

For organizations to function effectively, information must be exchanged efficiently, meaning that the information received must have the same meaning as the information sent.
The primary purpose of communications in organizations is to achieve coordinated action, information and decision-making.

2. THE COMMUNICATIONS PROCESS

The communications process is made up of a number of elements or stages through which every form of communication must pass (Figure 6.1):

- **Sender**: The entire process starts when the sender decides that he or she wants to send a message to another person. For example, the sender may want to inform his/her manager about a systems problem.
- **Encoding the message**: Before a message can be sent, it must be encoded in a suitable language. This language or sign could be any of the following; a gesture or non-verbal communication, written word, spoken word, picture or illustration.
- **Medium**: Once the sender has encoded the message the next decision is to choose which medium to use to transmit the message. Different types of medium include: email, memo, briefing, meeting, videoconference and telephone. The choice of medium will depend on a number of factors such as; is the message bad news, what is the speed of transmission of the message or a report.
- **Decoding process**: The receiver must decode the message and understand it before acting on the message. The use of unfamiliar language will impact the understanding of the message.
- **Receiver**: Finally, once the receiver has decoded and understood the message, the receiver then becomes the sender in the process. The receiver then sends feedback to the original sender to indicate that the message has been received and understood. The receiver also acts on the contents of the message if a direct action is required.

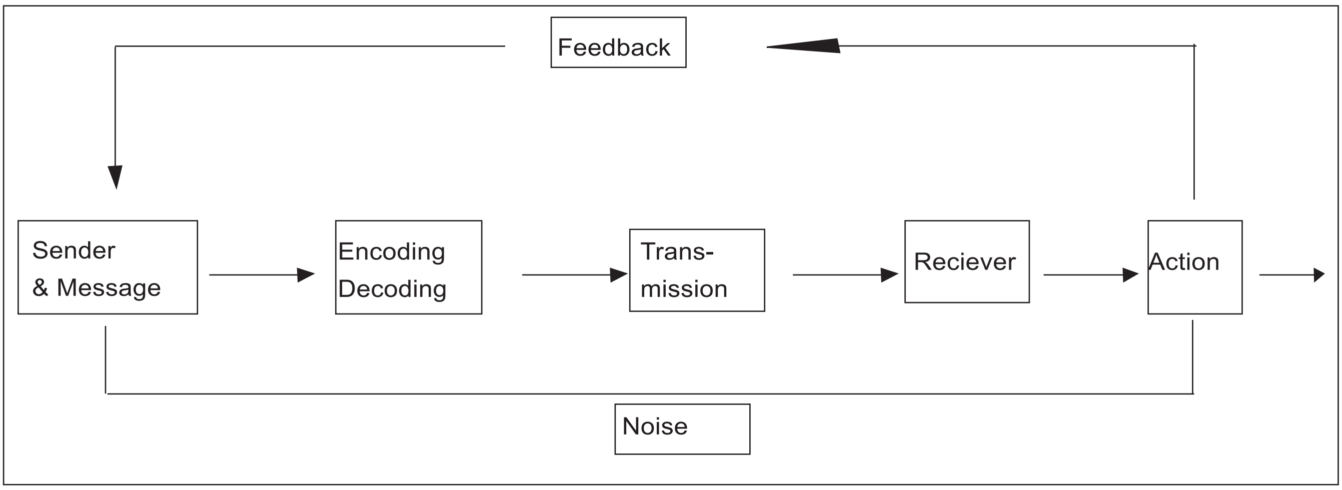


Figure 6.1: Model of the communication process

Two important elements of the communications process are **feedback** and **noise.**

Feedback: It is importance that the sender of the message gets feedback from the recipient to indicate that the message has been received and understood correctly. Feedback enables corrective action to be taken if there is a breakdown in the communications process.

Noise: Is used to denote anything that inhibits the success of the communications process. Noise can refer to actual noise in the room or the reader's state of mind. It is the job of the communicator to ensure that noise does not interfere with the successful communication of the message.
3. BARRIERS TO ORGANIZATIONAL COMMUNICATIONS

Improving organizational communications depends on identifying barriers to effective communication, which may include the following:

- **Poorly defined Channels of Communications**: The organizational structure may hinder good communications. Managers and employees may not be aware of the information needs of other sections of the organization.
- **Organizational Culture**: The culture of the organization may not allow for sufficient opportunities for communication to take place. Meetings may be arranged infrequently and even then they are not conducive to free speech and openness.
- **Personality Clashes**: Personality differences between individuals or rivalry between departments can stifle communications.
- **Inappropriate Choice of Medium or Presentation**: Information can be either too detailed or too generalised or the information may not be expressed clearly. A medium such as written communication is more suitable for detailed communication while verbal communication in more appropriate when persuasion and clarification are necessary.
- **Frame of Reference**: Depending on past experience, individuals may interpret communications differently. This is a common cause of breakdown in communications.
- **Jargon**: Using technical language may make communication incomplete or incomprehensible to those unfamiliar with it.
- **Communication Overload or Underload**: Too much or too little information being communicated, directly affects receiver comprehension. Too little generates a feeling of mistrust, while too much information may produce mental overload or stress.
- **Communicator Credibility**: The level of credibility a receiver assigns to a sender will affect how the receiver will react to the ideas suggested by the sender.
- **Selective Listening**: Individuals tend to selectively perceive information which reaffirms their beliefs and filter out conflicting information.
- **Withholding Information and Filtering**: The sender may withhold or manipulate information for to create a more favourable appearance. The communication may become distorted and meaningless if information is omitted.

12.2. CHANNELS OF COMMUNICATION

Communication channels are the means through which people in an organization communicate. Thought must be given to what channels are used to complete various tasks, because using an inappropriate channel for a task or interaction can lead to negative consequences. Complex messages require richer channels of communication that facilitate interaction to ensure clarity.

Face-to-Face

- Has highest information richness.
- Can take advantage of verbal and nonverbal signals.
- Provides for instant feedback.
- Management by wandering around takes advantage of this with informal talks to workers.
- Video conferences provide much of this richness and reduce travel costs and meeting times.

Spoken Communication Electronically Transmitted

- Has the second highest information richness.
- Telephone conversations are information rich with tone of voice, sender's emphasis, and quick feedback, but provide no visual nonverbal cues.

Personally Addressed Written Communication

- Has a lower richness than the verbal forms of communication, but still is directed at a given person.
- Personal addressing helps ensure receiver actually reads the message—personal letters and e-mail are common forms.
- Personally Addressed Written Communication
- Has a lower richness than the verbal forms of communication, but still is directed at a given person.
- Personal addressing helps ensure receiver actually reads the message—personal letters and e-mail are common forms.

Media Broadcast Media Communications
TV, radio and loud speakers all fall within the broadcast media communication channel. These types of media should be used when addressing a mass audience. Businesses seeking to notify customers of a new product may advertise or do promotions using a broadcast channel. Similarly, a CEO may do a global company address by having a television feed broadcast across global sites. When a message intended for a mass audience can be enhanced by being presented in a visual or auditory format, a broadcast channel should be used.

12.3. TYPES OF VERBAL AND NON-VERBAL COMMUNICATION

1. METHODS OF COMMUNICATION
The primary methods of communication are written, oral and non-verbal.

Written Communication: This allows a permanent method of communication, for example memos, reports and e-mails.

Oral (verbal) Communication: This is the most prevalent form of organizational communication and also the most powerful because in addition to words it can contain other information conveyed by the speaker's change of tone, volume and pitch.

Non-verbal Communication: This includes personal and environmental information such as body language, handshake, facial expression, eye movement or contact. Environmental factors include the layout or space. For example a large office may place more status on the inhabitant.

ORGANIZATIONAL COMMUNICATIONS

There are two forms of organizational communications:

- Formal Communications
- Informal Communications

Formal Communications

Formal communications are those that flow within the chain of command defined by the organization. There are three distinct types of formal communications:

- Downward Communications
- Upward Communications
- Horizontal Communications

Downward Communications

This is the most common form of communication in an organization and usually involves messages and information from top management flowing down through the organization.

The most common media used for downward communications are speeches, e-mail, published reports, newsletters and increasingly the company's Intranet site.

The topics covered in downward communications include:

- The vision, goals and objectives of the organization
- Procedures and policies
- Specific job instruction
- Feedback on performance and attainment of objectives

The main problems associated with downward communications are that the message will not filter down to all levels and it can get misinterpreted through numerous reiterations.

Upward Communications

Upward communication is the process of encouraging employees to share feelings and ideas with managers and employees at a higher level in the organization.
Upward communication is becoming increasingly important as employees are demanding and receiving more involvement in decision-making.
The following are some methods that can be used to establish and improve upward communications:

- Formal grievance procedure
- Opinion surveys
- Open door policy
- Informal meetings
- Task forces
- Team meetings

Horizontal Communications
Horizontal communication involves the lateral exchange of information among employees at the same level within an organization, or between different departments in the organization.

Horizontal communication falls into three main categories:

- Intra-departmental Communication - Within a department
- Inter-departmental Communication - Between departments
- Manager/Supervisor Communication - Between a Manager and their Supervisor(s)

Poor horizontal communications can result in lack of coordination between departments and rivalry between departments. These factors will have a negative impact on organization effectiveness.

Informal Communications

Informal communications can also exist within an organization and they can have both negative and positive impacts on communication effectiveness. The main informal communication system is referred to as the grapevine.

Chester Bernard identified four functions of informal communications:

- To communicate intangible facts, opinions, suggestions and suspicions.
- To minimise excessive cliques within an organization arising from too great a divergence of interests and views.
- To promote self- discipline of the group.
- To promote important personal influence in the organization.

Some of the reasons for the development of informal communication systems are the lack of an effective formal communications system, or a lack of openness in the organization.
Informal organizations can present management with formidable challenges. It can stall and slow down their plans, it can act as a covert third force. However it would be incorrect to presume this is always negative. In some instances the informal organization may be presenting a picture of "lived experience" that is worthy of greater managerial attention.

12.4. THE IMPORTANCE OF LISTENING SKILLS, CRITICAL THINKING AND PROBLEM SOLVING

Effective Listening

For listening to be effective it needs to be active. Active listening is more than simply listening to what is being said, it is also confirming to the speaker that their points are being understood in the way that they were intended to be. In turn, they will be more open and participative in their work. Active listening skills can be verbal and non-verbal. Verbal listening skills include:

- Summarising what the person is saying.
- Clarifying that what was said is understood, such as facts, opinions etc.
- Paraphrasing – repeating back to the speakers a little of what was said either in their own words or similar words.
- Explaining – giving an interpretation of previous statements.
- Open-ended questions to encourage further disclosure.
- Encouraging – thanking the person for their contribution.
- Silence – to encourage the speaker to continue.
- Linking – linking various statements and comments.

Non-verbal listening skills are rarely used alone and work in conjunction with and enhance verbal skills. They include facial expression, eye contact, body language, gestures, personal space and timing. There are cultural variations in how non-verbal language is used and in the meaning attached to them.

Active listening skills are very valuable but there are a number of pitfalls, which should be avoided. These include over-analysing, parroting, over-expansion, omitting, exaggerating and rushing. It is also important that the person chooses the right environment for the meeting and avoids a judgmental attitude. If the listener is trying to find a solution, they may be concentrating on what they are going to say, and not on what is being said. Good listening skills are a very important part of management. To improve on their listening skills a person needs to be aware of their present level of skills in this area, recognise the areas that need improvement and then actively work on those areas.

CRITICAL THINKING IN COMMUNICATION

One definition for **critical thinking** is "the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered from, or generated by, observation, experience, reflection, **reasoning**, or **communication**, as a guide to belief and action."

Critical thinking helps a leader in responding effectively in a given context rather than reacting. 'Listening to the self' is also an important part of communication process. Critical thinkers possess higher awareness of their own beliefs, experiences and biases. ... Critical thinking builds confidence in communication.

The skills that we need in order to be able to think critically are varied and include observation, analysis, interpretation, reflection, evaluation, inference, explanation, problem solving, and decision making.

Ways to improve your Critical Thinking Skills

- Ask Basic Questions. It's tempting to imagine that good critical thinkers ask erudite, convoluted questions when they're trying to solve a problem. ...
- Be Aware Of Your Mental Process. ...
- Adjust Your Perspective. ...
- Think In Reverse. ...
- Develop Foresight.

COMMUNICATION AND PROBLEM SOLVING

Organizational communication and building awareness can help make the benefits from problem-solving stick. Managing stakeholder expectations – Stakeholder confidence in your problem-solving abilities are based more on what you communicate than what you actually do.

The following communication rules can improve problem solving: State your problem and interests. Acknowledge others' problems and interests. Avoid name calling and answering a complaint with another complaint.

Problem-Solving Approach. Hyman's Problem Formulation model:

- **Need Statement:** recognizes and describes the need for a solution or improvement to an "unsatisfactory situation." It answers the questions, "what is wrong with the way things are currently? What is unsatisfactory about it? What negative effects does this situation cause?" You may need to do research and supply data to quantify the negative effects.

- **Goal Statement:** describes what the improved situation would look like once a solution has been implemented. The goal statement defines the scope of your search for a solution. At this point, do **not** describe your solution, only the goal that *any* proposed solution should achieve. The broader you make your goal, the more numerous and varied the solution can be; a narrowly focused goal limits the number and variety of possible solutions.
- **Objectives:** define measurable, specific outcomes that any feasible solution ***should*** optimize (aspects you can use to "grade" the effectiveness of the solution). Objectives provide you with ways to quantifiably measure ***how well*** any solution will solve the problem; ideally, they will allow you to compare multiple solutions and figure out which one is most effective (which one gets the highest score on meeting the objectives?).
- **Constraints:** define the limits that any feasible solution ***must*** adhere to in order to be acceptable (pass/fail conditions, range limits, *etc*.). The key word here is ***must*** — constraints are the "go/ no go" conditions that determine whether a solution is acceptable or not. These often include budget and time limits, as well as legal, safety and regulatory requirements.

Study Unit 13

Business communication

Contents

13.1. MEETINGS AND INTERVIEWS

Writing

With the wide spread use of e-mail and other forms of electronic communication, writing remains an important method of communication. It is a particularly important skill for managers whose job will involve writing reports, memos, etc. The following points should bourn in mind when writing any document.

- Keeping the words as simple as possible will make the document more understandable.
- Avoid unnecessary formality but adapt your style to the purpose of the communication.
- Be concise and specific, otherwise accuracy and clarity may be lost. Writing is covered in detail later in this chapter.

Effective Meetings

Meetings are an important means of sharing information and making decisions and those who chair them must ensure that people's time and talent are used effectively. The following are some guidelines for effective meetings:

- Make sure that the meeting is necessary and cannot be achieved by a memo or phone call.
- Set out an agenda; including items to be covered and what is expected of participants.
- Invite only those who need to attend.
- Prepare for the meeting, including a strategy on how to stimulate discussion on areas you need the meeting to focus on. Reserve your own opinion until near the end to avoid unduly influencing others.
- Give the meeting your undivided attention and avoid possible interruptions.
- Encourage participants to contribute, but keep to the agenda and avoid discussions of unrelated topics.
- Conclude the meeting by summarising the discussion, and confirm any action to be taken and by whom. As soon as possible after the meeting make out a set of minutes and distribute to participants.

13.2. BUSINESS CORRESPONDENCES: LETTERS, MEMOS, CIRCULARS

Construction of Effective Business Correspondence
Business Letters

The following is the most widely used format for business letters:

Letter head including senders address telephone number and e-mail address	AMM Ltd PO Box 1234 Kigali, Rwanda Tel: (078) 1112222 Fax: (078) 1112233 Email: info@ammltd.fr
Reference (Initials of writer/ typist and sometimes a filing reference	AB/CD
Date (day, month, year)	10 October 2011
Inside address (name, title, company, full address	Mr Paul Orr Sales Manager The Print Company PO Box 777 Kigali Rwanda
	Dear Mr Orr,
	Salutation
Heading (indication of the contents of the letter	Delivery of New Laptop Computer
	This layout has been established as the most popular way of setting out letters, fax, messages and memos – in fact most business correspondence
Body of letter (one line space between paragraphs)	Consistency is important in layout and spacing of all documents. It is usual to leave just one clear line space between each section
Complementary close	Yours Sincerely
Signature (leave room for)	John Sarr
Name of sender	John Sarr
Sender's designation or department	Sales Executive
Enc (if anything is enclosed)	Enc
Copy (if appropriate)	Copy

Writing memos

A memo (also known as a memorandum, or "reminder") is used for internal communications regarding procedures or official business within an organization.

Unlike an email, a memo is a message you send to a large group of employees, like your entire department or everyone at the company. You might need to write a memo to inform staff of upcoming events, or broadcast internal changes.

Business Memo Template

MEMORANDUM

TO:
FROM:
DATE:
SUBJECT:

I'm writing to inform you that [reason for writing memo].

As our company continues to grow … [evidence or reason to support your opening paragraph].

Please let me know if you have any questions. In the meantime, I'd appreciate your cooperation as [official business information] takes place.

Header:

In your header, you'll want to clearly label your content "Memorandum" so your readers know exactly they're receiving. Then, you'll want to include "TO", "FROM", "DATE", and "SUBJECT". This information is relevant for providing content, like who you're addressing, and why.

Paragraph One:

In the first paragraph, you'll want to quickly and clearly state the purpose of your memo. You might begin your sentence with the phrase, "I'm writing to inform you … " or "I'm writing to request ... ". A memo is meant to be short, clear, and to-the-point. You'll want to deliver your most critical information upfront, and then use subsequent paragraphs as opportunities to dive into more detail.

Paragraph Two:

In the second paragraph, you'll want to provide context or supporting evidence. For instance, let's say your memo is informing the company of an internal re-organization. If this is the case, paragraph two should say something like, "As our company continues to grow, we've decided it makes more sense to separate our video production team from our content team. This way, those teams can focus more on their individual goals."

Paragraph Three:

In the third paragraph, you'll want to include your specific request of each employee -- if you're planning a team outing, this is the space you'd include, "Please RSVP with dietary restrictions," or "Please email me with questions."

On the contrary, if you're informing staff of upcoming construction to the building, you might say, "I'd appreciate your cooperation during this time." Even if there isn't any specific action you expect from employees, it's helpful to include how you hope they'll handle the news and whether you expect them to do something in response to the memo.

Writing circulars

A circular is essentially a letter containing some important information that is distributed to a large number of people. Say for example you have to invite an entire department for a meeting, or update the dress policy for the whole office – a circular will be the best mode of communication for these purposes.

Additionally, circulars also find use as advertising tools. They can contain marketing information and have a wide distribution range. Be it for inter-departmental communication, advertising or even personal reasons a circular must always reach a large number of correspondents. This is one of its main features.

13.3. REPORT WRITING, TYPES, STRUCTURE AND USES OF REPORTS

Writing Reports

Many different types of reports are used in business – some are formal and quite long, while others are short and informal. The main purpose of a report is to provide information that is ultimately used to aid in decision-making.

Some reports contain little more than the recordings of an event, providing some facts on the event and possible actions to be taken. Other more detailed reports contain comprehensive explanations of facts, with conclusions and possibly recommendations for actions.

The more detailed reports will require an amount of research, which may involve interviews, questionnaires, observations and investigation. The information in a report may be presented in written, tabular or graphical form.

A Guide to Writing Reports (Taylor, S. 2003)

The main stages in writing a report are:

Defining a Purpose: The author should be clear about:

- Why they are writing the report
- What to include
- What to leave out
- Who the readers are

Investigating the Topic: This depends on the topic and purpose of the report. You may need to read, interview, experiment and observe.

Organising the report into sections: Reports can be set out in eight parts but not all parts are always necessary.

- **Title or title page**: A short report will not need a titles page, only a title.
- **Contents list**: This is normally only needed for long reports.
- **Abstract**: This is only needed for formal reports such as scientific research.

The abstract is a summary of the report that appears in library files and journals. It is usually between 150 to 300 words.

- **Introduction**: The introduction should be brief and answer questions such as: What is the topic? What was the method used? What is the background? What were the sources?

- **Discussion**: This is the main body of the report. It will generally be the longest part of the report containing all the details of the work organised under headings and sub headings.
- **Summary and conclusions**: This section describes the purpose of the report, the conclusions and how they were reached. This section is sometimes placed before the discussion section
- **Recommendations**: The section details what future actions are required to improve the situation.
- **Appendix**: This contains material which readers only need if they are studying the report in depth.

Note: Writers often put the summary conclusions and recommendations together and circulate them as a separate document. This is often called an executive summary

Order of presentation: The following is the recommended order of presentation. However all the sections would not be required for every report, especially those shown in brackets

Long Report

- Title or title page
- Contents list
- (Abstract)
- Introduction
- Discussion
- Summary and conclusions
- Recommendations
- (Appendix)
- (Bibliography): Long reports might include research and thus a bibliography or reference page may be required.

Short Report

- Title
- Introduction
- Discussion
- Summary and conclusions
- Recommendations
- (Appendix)

Order of Writing: The order of writing doesn't have to follow the order of presentation. The following approach is useful as each section helps to write the next:

- Introduction
- Discussion
- Summary and conclusions
- Recommendations

- (Abstract)
- Title or title page
- Contents list
- (Appendix)

Numbering of sections and paragraphs: Sections and paragraphs should be numbered and labelled.

Planning the writing: Before writing a report you will normally have to collect a large volume of information. To save time and to produce a better organised report you should make a plan for each of the main sections of your report.

Revision: You should always critically read what you have written. You may have to change your structure and rewrite parts of the report so that it is clear and concise.

13.4. POSTAL AND COURIER SERVICES

Postal and courier services form a key part of the global communications infrastructure, with high economic and social importance. Postal and courier services includes express delivery services. **International mail**: Where sender and receiver lives in different countries. **Inland mail**: Where sender and receiver lives in same the country. A courier can transport all the same things as a regular mail service such as letters, packages as well as large and bulky items such as pallets of stock and much more.

The mail or post is a system for physically transporting postcards, letters, and parcels. A postal service can be private or public, though many governments place restrictions on private systems.

Traditionally, postal services have been services supplied by state-owned entities that have a monopoly on basic mail services, while courier services, usually parcel delivery or expedited mail services, are often supplied by privately owned companies. During the last two decades the postal sector has seen dramatic changes around the world and the distinction between postal and courier services is now blurred.

Challenges presented by technological advancements in communications have forced more and more countries to embark on market-oriented postal reform. Competition has been introduced into the postal sector in more than 150 countries; postal service monopolies have been corporatized and/or privatized; and services reserved to monopolies have been largely reduced. Some countries have even fully ended monopoly rights in their postal markets. A lot of Posts, while continuing to provide the universal service, have entered into competition with private companies in various postal activities. Some Posts have even made extensive acquisitions abroad and have become global players. Liberalisation of postal markets has also provided more opportunities to private companies to expand their business. Today, operators in this sector range from the incumbents, often providing the universal service, to companies that provide parts of the postal value chain

13.5. PRESENTATIONS: PLANNING, ORGANIZING/DELIVERING BUSINESS PRESENTATIONS

1. PROCESS FOR WRITING AND PRESENTING MESSAGES

In their book "Excellence in Business Communication", Thrill and Bovee propose a three- step process for writing messages:

The writing process may be viewed as three simple steps:

Step 1. Planning business messages

- **Analysing the situation:** A successful message starts with a clear purpose that connects the sender's needs with the audience's needs. All business messages have both a general purpose (to inform, to persuade or to collaborate) and a specific purpose (such as placing an order). Develop an audience profile by identifying the primary audience, determining audience size and composition, evaluating the level of knowledge, and gauging the probable reaction.
- **Gathering information**: For many kinds of business messages, you can informally gather information to satisfy your audience's needs by:
  - Considering other viewpoints
  - Reading reports and other company documents
  - Talking with supervisors, colleagues or customers
  - Asking your audience for input

Selecting the right medium: The choice of media include:

- Oral - face-to-face conversation, speeches, presentations and meetings
- Written - notes, letters, memos, reports and proposals
- Visual - charts, graphs and diagrams
- Electronic Media – includes telephone calls, teleconferencing, voice-mail messages and audio recordings such as compact discs and podcasts, e-mail, instant messages, blogs, websites, text messaging, electronic presentations, computer animation and video.

Organising the information: The four steps for organising messages are:

- Define the main idea
- Limit the scope of the message
- Group the points in an outline
- Choose a direct or an indirect approach, depending on anticipated audience reaction, message length and message type (routine, negative or persuasive).

Step 2. Writing business messages

Adapting to your audience:

- Being sensitive to your audience's needs
- Building strong relationships with your audience
- Controlling your style and tone

Composing your message:

- Choosing strong words
- Creating effective sentences
- Craft coherent paragraphs

Step 3. Complete business messages by:
Revising:

- Reviewing content and organization
- Reviewing readability
- Editing and rewriting to make the message concise and clear

Producing:

- Designing your document to suit your purpose
- Being careful with font selection, use of white space and so on

Proofreading:

- Reviewing for typos
- Looking for errors in spelling and mechanics
- Spotting alignment problems
- Detecting poor print quality

Distributing:

- Balancing cost, convenience, time, security and privacy

The three steps are summarised in Figure 6.2.

<table>
<tr><th colspan="3">The Three Step Writing Process</th></tr>
<tr><td>Planning</td><td>Writing</td><td>Completing</td></tr>
<tr><td>Analyse Situation</td><td rowspan="2">Adapt to the Audience</td><td>Revise</td></tr>
<tr><td>Gather Information</td><td>Produce</td></tr>
<tr><td>Select Medium</td><td rowspan="2">Compose Message</td><td>Proofread</td></tr>
<tr><td>Get Organised</td><td>Distribute</td></tr>
</table>

Figure 6.2: The three step writing process (Thrill and Bovee, 2007).

I. WRITING STYLES

In this section we look at three different writing styles:

- Writing routine informative messages
- Writing persuasive messages
- Writing negative messages

The Informative Style Message

For a typical employee, most day-to-day business communication concerns fairly routine matters. A request is routine or informative when it is part of the normal course of business and the audience is likely to comply. Because your readers will be interested or neutral, you can use the direct approach for most routine messages. The following approach is suggested by Bovee & Thill (2007):

Planning your message

Planning routine messages may take only a few moments.

- Begin planning by **analysing your situation** to make sure that your purpose is clear and you know enough about your audience to craft a successful message.
- Continue planning by **gathering all information** your audience needs to know so as to save time for yourself and your audience, and avoid the trouble writing of additional messages to fill the gaps.
- Continue planning by **selecting the medium** most appropriate for your message and audience.
- Finish planning by **organising your information** effectively:

    - Defining your main idea (usually well defined for routine business messages).
    - Limiting your scope.
    - Selecting a direct or indirect approach (usually direct for routine, positive messages).
    - Outlining your content.

Writing the Message

With some practice, you'll be able to write most routine messages quickly. Be sensitive to your audience's needs by being polite and emphasising the positive. Use a conversational tone, plain English and the active voice.

Complete the routine messages by revising, producing, proofreading and distributing. It is important to balance cost, convenience, time, security and privacy.

Type of Routine Messages:

Routine messages can be divided into two groups; routine requests and routine replies.

1. MAKING ROUTINE REQUESTS

You are making a request whenever you ask for something such as information, action, products or adjustments.

Routine requests have three parts:

- **Opening**: Where you clearly state your main request.
- **Body**: Where you give details and justify your request.
- **Close**: Where you request specific action.

2. SENDING ROUTINE REPLIES AND POSITIVE MESSAGES

When sending routine replies and positive messages, you have several goals:

- To communicate the information or good news.
- To answer all questions.
- To provide all required details.
- To leave your reader with a good impression of both you and your firm. Routine replies and positive messages usually have three parts:
    - They open with the main idea (the positive reply or the good news) stated clearly and concisely.
    - They provide all the relevant details in the middle.
    - They close cordially, perhaps highlighting a benefit to your reader. Most routine and positive messages fall into six main categories:
        - Answers to requests for information and action.
        - Grants of claims and requests for adjustment.
        - Recommendations.
        - Informative messages.
        - Good-news announcements.
        - Goodwill messages.

Some Guidelines when Writing Routine or Informative Messages:

When asking a series of questions in a request, the writer should (1) ask the most important questions first, (2) ask only relevant questions, and (3) deal with no more than one topic per question.

Explaining how responding to your request may benefit your audience, is one aspect of the "you" attitude. Doing so accommodates the reader's need to understand why he or she should make your request a priority, and increases the likelihood that you will receive a desirable response.

It's usually best to avoid an outright apology. However, you can't avoid taking responsibility for a mistake that has been made. Word your response carefully, emphasising the good news about what you are doing to provide compensation and to improve circumstances. Be sure to balance your humility over the mistake with your responsible handling of the claim and your fairness in making the adjustment.

The Persuasive Style Message

Persuasion is the attempt to influence the attitudes, beliefs, or actions of members of your audience. Persuasion is not about trickery or getting people to make choices that aren't in their best interest; persuasion gives your audience a choice and helps them choose to agree with you.

Bovee & Thill, (2007) suggest that successful persuasive messages demand careful attention to all four tasks in the planning step:

- Analysing your situation
- Gathering information
- Selecting the right medium
- Organising your information

DEVELOPING YOUR MESSAGE

The goals of your persuasive business messages are to convince your readers that your request or idea is reasonable and that it will benefit your readers in some way.

STRUCTURING YOUR ARGUMENTS

When structuring a persuasive argument, you can use the AIDA plan:

Attention: Your opening does more than simply introduce your topic; it grabs audience attention and encourages them to hear more about your main idea.

Interest: Your explanation does more than present reasons; it stimulates the interest of your audience.

Desire: Your continued explanation does more than present benefits; it changes your audience's attitude.
Action: Your close does more than end on a positive note; it emphasises reader benefits and motivates the reader to take specific action.

This is a suitable structure for persuasive messages because the main idea - what you want the audience to do is presented at the end, after all the reasons and attention-getting material is laid out. By the time the readers reach the action stage of the message, they are not only paying attention but are also more interested in the information and motivated to follow through by taking the proposed action.

General Guidelines

When writing persuasive requests for action, you want to:

- Choose either a direct or an indirect approach (depending on whether your audience anticipates your request).
- Begin with an attention-getting device (showing readers you know something of their concerns).
- Give facts, explain benefits, and enhance your appeal in the interest and desire sections.
- Gain credibility for you and your request.
- Make your readers believe that helping you will help solve a significant problem.
- Close with a request for some specific action.

Some Guidelines when Writing Persuasive Messages:

Unless your request is routine, opening your persuasive message with an immediate call to action will often lead the audience to say "no." Most audiences are initially resistant to act, and unless you give yourself a chance to explain why they should comply, they will make up their minds before hearing all that you have to say.

If an emotional appeal is used to manipulate an audience's decision, and especially if the communicator appeals to some negative emotion such as fear, that appeal must be considered unethical. Subtle appeals to an audience's emotions that evoke positive feelings of comfort, happiness, safety, self-esteem and so on would usually be considered ethical.

The best way to deal with audience resistance to your persuasive message is to anticipate and address as many objections as you can in your initial message. If you wait until people raise

the concern after reading your message, chances are they already will have gravitated towards a firm “no” before you have a chance to address their concerns.
In persuasive messages, an aggressive “hard sell” approach is likely to put audiences on guard and on the defensive, reducing their willingness to agree with you and/or to do what you ask of them.

You present both sides to show that you have thoroughly studied the alternatives. By second-guessing your audience’s concerns, you can provide compelling reasons in your persuasive message that show why other alternatives won’t work. If you don’t do this, your audience will focus on other possible alternatives instead of your proposed solution. Until you can satisfy their concerns, they won’t accept your proposal.
Unlike routine requests, persuasive messages require you to motivate others to act, and they are not about ordinary, day-to-day matters. Because persuasive messages are supposed to convince or motivate readers, they often include more detail than routine requests. They also require more strategic planning to achieve credibility, to choose the right appeal, and to use semantics and other reinforcement tools effectively.

The Negative Style Message
When you send negative messages, you have five main goals:

- To convey the bad news
- To gain acceptance for the bad news
- To maintain as much goodwill as possible with your audience
- To maintain a good image for your organization
- To reduce or eliminate the need for future correspondence on the matter.

According to Bovee & Thill (2007), when developing negative messages there are two approaches:

The Direct Approach

- Open with a clear statement of the bad news,
- Provide reasons and additional information,
- Close with a positive forward-looking statement that is helpful and friendly.

One advantage of using the direct approach to deliver the negative news at the beginning of a message is that doing so makes the message shorter. Another advantage is that the audience gets to the main idea in less time. The direct approach makes sense when the audience is known to prefer reading the negative news first and when readers are unlikely to react very negatively to the news.

The Indirect Approach

- Open with a buffer - a neutral, non-controversial statement related to the point of the message,
- Provide reasons and additional information,
- Continue with a clear statement of the bad news,
- Close with a positive forward-looking statement that is both helpful and friendly.

Some Guidelines when Writing Negative Messages

- Some critics believe that buffers are unethical and see them as being manipulative and dishonest. However, buffers that are sincere are neither manipulative nor dishonest and are perfectly ethical.
- When using an indirect approach to announce a negative decision, presenting your reasons before explaining the decision is a way to convince the audience that your decision is justified, fair and logical.

Three techniques for de-emphasising negative news are

- Minimising the space or time devoted to the negative news,
- Subordinating the negative news, and
- Embedding the negative news in the middle of a paragraph or in parentheses.

When you de-emphasise the negative news, your intentions are kind, not manipulative. You still present the facts and deliver the negative news. However, you are trying to get readers to focus on the positive, or you are helping them become more willing to understand the reasons for the negative news.

Suggesting an alternative to readers is often a good idea if the suggestion is genuinely useful. Offering constructive advice encourages readers to think of you in a positive way.

When giving a negative review to an employee, follow these five steps:

- Confront the problem right away,
- Plan your message,
- Convey the message in private,
- Focus on the problem without attacking the person, and
- Ask the employee to make a commitment to improve.

The last thing your audience will remember is the close of your message. A positive close can help create an upswing from a potentially damaging situation. No one likes negative news, and your upbeat close can overcome lingering feelings that could interfere in future business relationships.

The Principles of Effective Communications

- Think carefully about your objective before communicating. Do you want to inform, persuade, advise or consult?
- Choose the correct medium, or combination of media; speech, visual etc.
- Organise your ideas and express them carefully.
- Time the message to its best advantage.
- Check for feedback.
- As the receiver, give messages your full attention and respond in an appropriate way.

Study Unit 14

Technology and communication

Contents

ELECTRONIC FORMS OF COMMUNICATION

The widespread use of Information Technology has introduced new methods of communication. These include the use of:

Telephone and Fax

Fax

A fax (short for *facsimile* and sometimes called *telecopying*) is the telephonic transmission of scanned-in printed material (text or images), usually to a telephone number associated with a printer or other output device. The original document is scanned with a fax machine, which treats the contents (text or images) as a single fixed graphic image, converting it into a bitmap. In this digital form, the information is transmitted as electrical signals through the telephone system. The receiving fax machine reconverts the coded image and prints a paper copy of the document. A fax machine is designed to both send and receive documents so it has a sending part and a receiving part. The phone line transmits this information almost instantly to a fax machine at the other end. It receives the electrical pulses and uses them to control a printer.

Telephone

Telephone communication is the transmission of speech over a distance either by electric signals propagated along conductors or by radio signals; a type of telecommunication. Telephone communication permits conversations to be carried on between people (subscribers) separated by almost any distance. It is a device that coverts sound and electrical waves into audible relays, and is used for communication. The telephone consists of two essential parts; a microphone and a speaker. This allows the user to speak into the device and also hear transmissions from the other user.

Recent development in information systems and the internet.

E-mail

E-mail is becoming one of the most widespread means of communication within organization. It is very fast and efficient and supports one-to-one and one-to-many communications. Another advantage is that there is a written record of the communication. Some points to bear in mind when using e-mail are:

- Do not assume privacy, as the receiver can forward your message to another person without the knowledge or permission of the sender.
- Keep message to the point but not overly short as this may annoy the recipients.
- Respond to e-mails in a timely manner.

CREATING EFFECTIVE E-MAIL MESSAGES

The following are some guidelines for creating effective emails:

- Be sure to recognise the differences between business e-mail and personal e-mail.
- The consequences of poor judgment in the use of e-mail can be quite serious in business.
- Electronic documents have the same legal weight as printed documents.
- Be sure to clarify if your company has an e-mail policy and follow it.
- Be careful what you write: 25% of companies monitor internal e-mail; 50% of companies monitor incoming and outgoing e-mail.

Planning effective e-mail messages involves:

- Sending only those messages that are essential
- Paying attention to e-mail etiquette
- Making sure every e-mail you send is necessary
- Using the “cc” function carefully
- Being specific
- Respecting the chain of command

When writing most e-mail messages, you don’t need to compose perfect works of literature, but you do need to be careful and sensitive to your audience’s needs.

Subject lines are one of the most important parts of e-mail messages; they help the reader decide whether or not to open the message.

- Make sure your subject line is informative and compelling.
- Do more than just describe or classify message content—build interest with key words, quotations, directions, or questions.
- When exchanging multiple e-mails with someone on the same topic, modify the subject line to reflect the revised message content.

Keep your emotions under control:

- Never allow yourself to send a highly emotional e-mail
- Ask yourself if you would say this to your audience face-to-face and if you are happy with the idea of this message potentially being read by anybody in the organization.

Like other messages, e-mail requires revision, production and proofing.
Use your e-mail system’s ability to include a signature.
Pause to verify what you’re doing before you click “Send.”

Internet

Internet communication is referred to as the sharing of information, ideas, or simply words over the World Wide Web, or the Internet. The Internet consists of a worldwide string of connected networks that exchanges data through packet switching using the standardized Internet Protocol Suite (TCP/IP)

With internet communication, employees can effortlessly communicate with one another at anytime from anywhere in the world. ... This is because effective communication is important in increasing productivity as it directly impacts the behavior of the employees and how they perform.

Online communication has opened the door to new ways of communicating with strangers and taking part in communities. Chat rooms, discussion forums and dating sites let people meet each other and get to know more people without having to be there in person.

Mobile Computing

Increasingly we are using wireless devices such as smartphones, wireless handheld devices, and laptops with wireless network connections to communicate and to obtain information and data.

Mobile phones are no longer just for voice communications; they are now an important platform for delivering digital data, such as downloading video and music, internet access and e-mail. There are increasingly being used by remote staff such as field sales and service staff to access applications and email. Businesses are using wireless networks and applications to increases productivity and worker output by providing communication and access to information from almost anywhere.

Mobile technology provides more flexible arrangements for organising work as field staff can access details of jobs on their mobile device without having to return to the office for instructions. Cloud Computing

Cloud computing is a model of computing that provides access to a pool of shared computing resources over a network (usually the internet). These resources include computers, storage, applications and services. These resources are made available to the users based on their needs and independent of the location of the users themselves.

According to Laudon and Laudon (2012) there are basically three types of cloud computing services:

- Software as a Service (SaaS): Customers can use software applications hosted on a service provider's infrastructure. A wide range of applications can be delivered through a SaaS model, such as customer relationship management, and email. Users are charged a subscription fee on the level of services offered and the numbers of user logins required. An example of a company offering SaaS is Salesforce.com which leases CRM software over the internet.
- Cloud infrastructure as a service: Customers use computer processing, storage, networking and resources from the cloud service provider. For example Amazon sell infrastructure services including storage service for storing customer's data. Users only pay for the storage capacity used.
- Cloud platform services: Customers use software tools and infrastructure hosted by the service provider to develop their own applications that are then hosted on the servers belonging to the service provider.

The benefits of cloud computing to the business are:

- Large investment in IT infrastructure is not required
- Services are available on-demand
- Charges are based on amount of resources used
- Ability to scale up or down resources as required

Electronic postal services and money transfers

Electronic postal services

Modern alternatives, such as the telegraph, telephone, telex, facsimile, and email, have reduced the attractiveness of paper mail for many applications. These modern alternatives have some advantages: in addition to their speed, they may be more secure, e.g., because the general public cannot learn the address of the sender or recipient from the envelope, and occasionally traditional items of mail may fail to arrive, e.g. due to vandalism to mailboxes, unfriendly pets, and adverse weather conditions. Mail carriers due to perceived hazards or inconveniences, may refuse, officially or otherwise, to deliver mail to a particular address (for instance, if there is no clear path to the door or mailbox). On the other hand, traditional mail avoids the possibility of computer malfunctions and malware, and the recipient does not need to print it out if they wish to have a paper copy, though scanning is required to make a digital copy.

Physical mail is still widely used in business and personal communications for such reasons as legal requirements for signatures, requirements of etiquette, and the requirement to enclose small physical objects.
Since the advent of email, which is almost always much faster, the postal system has come to be referred to in Internet slang by the retronym "snail mail". Occasionally, the term "white mail" or "the PaperNet" has also been used as a neutral term for postal mail.

Money transfers
When you send money online, the best way depends on how and where you want to send it. You compare fees, speed and other features to find the best way and providers for domestic and international money transfers.

Online Banking Transfers
Online money transfer is the modern-day equivalent of wiring money: You can send someone money instantaneously simply by transferring money (or the data that represents that money) from you to another person.

Bank account transfers
A bank account transfer works when a person instructs their bank to send money directly into another bank account. This is usually done electronically via online banking.

Bank Electronic funds transfers
You can use the debit card to move money from your business bank account. Use your debit card to make purchases or pay bills online, in person, or over the phone. Electronic checks are similar to paper checks, but used electronically. You will enter your bank account number and routing number to make a payment.

Mobile money transfers
A mobile money transfer is a fast, easy and secure transaction whereby a sender sends money from their bank, credit/debit card or own mobile money account to another mobile money account.
The Best Apps to Send Money

- Venmo.
- PayPal.
- Dowlla.
- Square Cash.
- Google Wallet.
- Facebook Messenger.

Other modern communication technologies
Semantic Web
The Semantic Web is an initiative led by the World Wide Web Consortium (W3C) that promotes common formats for data on the World Wide Web. The Semantic Web aims to move for the current situation where the Web is composed of basically unstructured documents into a "web of data". According to the W3C the Semantic Web is about two things:

- It is about common formats for integration and combination of data drawn from diverse sources, where on the original Web mainly concentrated on the interchange of documents.
- It is also about language for recording how the data relates to real world objects.

The Semantic Web was initially conceived by Tim Berners-Lee, the inventor of the World Wide Web who defines the Semantic Web as "a web of data that can be processed directly and indirectly by machines."

Virtual Identities

A virtual identity is created when someone logs on to a digital platform or system such as virtual communities, social media and gaming sites. Platforms such as Second Life offer a virtual community where people act through their virtual identity.

Businesses need to understand the impactions of a large section of population (40% who contribute content online do so using user names and pseudonyms) including customers and worker that are using virtual identities to interact with each other, and with businesses.

Videoconferencing

Videoconferencing is a live video (television) exchange between people in different locations. The main benefits of Videoconferencing are the time and costs saved by not having to travel to meetings. Videoconferencing is still quite expensive and this has tended to limit its use.

Teleconferencing

Teleconferencing is cheaper to set up and use than videoconferencing. Teleconferencing is used widely to enable groups of graphically dispersed people to communicate. It can be useful for briefing staff at short notice and also for project teams to monitor the progress of a project. It is limited in its use in group decision-making situations, unless the issues are clearly understood and there is unlikely to be conflicting views within the group.

Blogs

Blogs, which represent the earliest form of social media, are special types of websites that usually display date stamped entries in reverse chronological order. They are the social media equivalent of personal web pages and can come in a multitude of different variations; from personal diaries describing the author's life to summaries of all relevant information in one specific content area. Blogs are usually managed by one person only, but provide the possibility of interaction with others through the addition of comments. Due to their historical roots, text-based blogs are still by far the most common.

Social Networks

Social networks such as Facebook are being used to complement other communication channels such as the telephone and email. Social networks also provide the opportunity to interact and engage with customers and the wider community.

Many companies have Facebook pages to communicate new products and offers with the public. Social networks are a very cost effective way of communicating with customers and getting their feedback on products and services. Social networks have opened up another dimension of advertising to the wider community. Two of the most popular social networking service are Facebook and Twitter.

Twitter is an online social networking and micro-blogging service that enables its users to send and read text-based posts of up to 140 characters. Twitter can provide businesses a means of fast, free, up-to-date communication of products/services/offers with twitter users. Social networks and blogs are of great importance for communication in businesses involved in media such as newspapers and magazines.

LinkedIn is a business orientated social networking service that can be used by businesses to communicate with potential further employees.

Web Conferencing (Webinars)

Web conferencing services enable conferences to be shared with remote locations. The web conference utilises Internet technologies, to allow the sender to communicate in real-time with many receivers using computers. This is referred to as a multicast communication. The Web conference enable information in text, audio, graphics and video formats to shared over large geographic regions. Web conferencing can be utilised for meetings, presentations, lectures and training.

Web conferences are also referred to as Webinars (short for Web seminars). Webinars are generally interactive; that is as well as allowing the audience to receive information, they can also interact with the teacher/speaker to discuss and provide feedback.

Wikis

Wikis are a type of Web site that allows users to edit Web pages or create new Web pages directly from the browser without any need use Web development tools or programming languages. Wikis can be utilised by organizations to create and store knowledge as they cost much less than formal knowledge management systems and they are more flexible and dynamic.

Study Unit 15

Emerging trends in communication

Contents

15.1. DIVERSITY IN PHYSICAL INFRASTRUCTURE & HIGHER SPEED BROADBAND NETWORKS

1. DIVERSITY IN PHYSICAL INFRASTRUCTURE

Communications infrastructure is the informal and formal channels of communication, political and social networks, or beliefs held by members of particular groups, as well as information technology, software development tools. Still underlying these more conceptual uses is the idea that infrastructure provides organizing structure and support for the system or organization it serves, whether it is a city, a nation, a corporation, or a collection of people with common interests. Communication infrastructure refers to the backbone of the communications system upon which various broadcasting and telecommunication services are operated. This can be built from copper cable, fiber, or wireless technologies utilizing the radio frequency spectrum, such as microwave and satellite.

Information technology infrastructure

IT infrastructure is defined broadly as a set of information technology (IT) components that are the foundation of an IT service; typically physical components (computer and networking hardware and facilities), but also various software and network components.

According to the Information Technology Infrastructure Library's (ITIL) Foundation Course Glossary, IT Infrastructure can also be termed as "All of the hardware, software, networks, facilities, etc., that are required to develop, test, deliver, monitor, control or support IT services. The term IT infrastructure includes all of the Information Technology but not the associated People, Processes and documentation."

Enterprise IT infrastructure typically refers to components required for the existence, operation and management of an enterprise IT environment. It can be internal to an organization and deployed within owned facilities, or deployed within a cloud computing system, or a combination thereof. An IT infrastructure consists of a set of physical devices and software applications that are required to operate the entire enterprise.

2. HIGHER SPEED BROADBAND NETWORKS

The term broadband commonly refers to high-speed Internet access that is always on and faster than the traditional dial-up access. Broadband includes several high-speed transmission technologies such as: Digital Subscriber Line (DSL) Cable Modem.

Broadband refers to high internet access. It allows to access the internet and internet related services at significant higher speeds than modems. It provides service more than 256 kbps to several mbps. There are many Different technologies both wired and wireless. Bsnl's Broadband works under the brand name "cellone".

Today, the most common form of broadband is ADSL, which has become available even in remote areas of the country. More recently, broadband has developed further, with the advent of Wi-Fi, which enables the user to connect to the Internet without the need for wires.

Broadband networks are increasingly recognised as fundamental for economic and social development. They serve as a communication and transaction platform for the entire economy and can improve productivity across all sectors. Advanced communication networks are a key component of innovative ecosystems and support economic growth.

DIGITAL SUBSCRIBER LINE (DSL) Digital Subscriber Line (DSL) is a broadband high-speed Internet technology that brings high-bandwidth information to home and offices over existing twisted-pair telephone lines as the access media.

Following are some of the key features of DSL:

- Distance-sensitive technology
- Internet connection is always ON
- Simultaneous use of the phone line for voice as well as data traffic
- Internet Connection is highly reliable and secure
- High Speed (Mbps)

ADVANTAGE

Fast connection.
The connection is always on, which means user can access internet.
Information can be downloaded into the computer at significant high speeds than traditional modems.

- Users can go on without tying their phone lines.
- All computers within a building can surf using a wireless router.
- Uses same line phone but allows calls to be made at the same time.
- It provides security.

APPLICATION

- Personal Services
- High Speed Internet Access
- Multimedia
- Governments Public services
- E-governance
- E-education
- Tele-medicine
- Commercial services
- E-commerce
- Corporate Internet
- Videoconferencing
- Video & Entertainment services
- Broadcast TV
- Video on Demand
- Interactive gaming
- Music on Demand
- Online Radio

15.2. NETWORK MANAGEMENT TECHNOLOGIES

1. INTEGRATING THE NETWORK MANAGEMENT WORLD INTO THE WEB

The key driver for integration of web technologies into network management is the desire to have simple but powerful tools accessible from every platform. The web technologies (web browser, HTTP, HTML and web servers) provide in addition the following benefits:

- Web servers act as central repositories, reducing maintenance costs. For example, a management application can be changed at a server, and these changes propagate automatically through web browsers; there is no need to update the browsers.

- Facilities such as documentation and on-line help can be consolidated at servers.
- Web “pages” provide a natural environment to integrate multiple services. A survey of the current trends in the use of the web technologies for network management can be found in (Jander, 1996).

Webbin’: HTTP-based Network Management

Webbin’ allow networks to be managed through a web browser and provides a set of tools and programming interfaces to enable the development of network management applications.

Webbin is based on the idea that the complexity of protocols such as CMIP or SNMP has to be hidden by the system and that the users have to rely on the services provided by the system and to reuse them every time a new application has to be developed instead of replicating them (craftsman paradigm, i.e. everything has to be custom built for a certain task).

NETWORK MANAGEMENT AGENTS

The management of high speed networks often require massive transfers of data. Such transfers can be inhibited by bandwidth constraints, storage limitations and data ownership considerations. Today’s management systems are based on a platform-centered paradigm that separates applications from the required data and services. This centralized paradigm has been stretched to its limits by the emerging large scale, complex multi-domain networks. There is a growing need for new technologies to automate and distribute management functions to enable scaleable and robust operation. Mobile agents are programs that can be dispatched and executed remotely under local or remote control. They can be used to move management functions to the data rather than move the data to these functions, thereby facilitating network management architectures for distributed automated management of networks of arbitrary scale and complexity.

Smart Management Applications

The SMAP approach supports distributed management, combining the web, Java and mobile agent technologies.

The goal of the SMAP research effort is the development of a distributed management paradigm to overcome the disadvantages of centralized network management. Smart Management Applications (SMAPs) are small, mobile network management tasks that can be executed at one or more locations in the network with the following key benefits:

- small footprint, as SMAPs are specialized to handle a small set of network management tasks and are activated only when necessary;
- localized problem resolution, as SMAPs can execute close to the managed equipment. thus providing a closer, detailed view of the network state as well as reducing network management traffic by consolidating collected data locally.

In the SMAP approach, the management applications (or at least parts of them) move closer to the probes (agents) to solve management tasks. The centralized manager or console is reduced to the role of presenting information and invoking management tasks as necessary.

NETWORK MANAGEMENT REQUIREMENTS

Fault management

The facilities that enable the detection, isolation, and correction of abnormal operation of the (International Organization for Standardization) OSI environment.

Accounting management
The facilities that enable charges to be established for the use of managed objects and costs to be identified for the use of those managed objects.

Configuration and name management
The facilities that exercise control over, identify, collect data from, and provide data to managed objects for the purpose of assisting in providing for continuous operation of interconnection services.

Performance management
The facilities needed to evaluate the behavior of managed objects and the effectiveness of communication activities.

Security management
Those aspects of OSI security essential to operate OSI network management correctly and to protect man-aged objects.

15.3. WEB BASED SERVICES AND THE EMERGING "SOCIAL WEB"

1. WEB BASED SERVICES

The term Web services describes a standardized way of integrating Web-based applications using the XML, SOAP, WSDL and UDDI open standards over an Internet protocol backbone. Web services instead share business logic, data and processes through a programmatic interface across a network.
Used primarily as a means for businesses to communicate with each other and with clients, Web services allow organizations to communicate data without intimate knowledge of each other's IT systems behind the firewall. Thus, a web service is a collection of open protocols and standards used for exchanging data between applications or systems.

Unlike traditional client/server models, such as a Web server/Web page system, Web services do not provide the user with a GUI. Web services instead share business logic, data and processes through a programmatic interface across a network. The applications interface, not the users. Developers can then add the Web service to a GUI (such as a Web page or an executable program) to offer specific functionality to users.
Web services allow different applications from different sources to communicate with each other without time-consuming custom coding, and because all communication is in XML, Web services are not tied to any one operating system or programming language. For example, Java can talk with Perl, Windows applications can talk with UNIX applications.

2. THE EMERGING "SOCIAL WEB"

The emergence of Facebook, Twitter, and the rest of the social Web as a global force in the last several years has done a great deal to highlight their potential to fundamentally alter the way we communicate and collaborate both at home and in business. However, despite the movement of social computing into our daily lives we're all clearly on a long journey together as the technologies themselves emerge from infancy.
While some advances in social media are happening in the enterprise space as well, the real story continues to be the Web as it continues to forge quickly ahead in terms of sheer innovation and raw output to shape the latest developments in social computing.

Social Networking Site (SNS)
A social networking site is an online platform that allows users to create a public profile and interact with other users on the website. Social networking sites usually have a new user input a list of people with whom they share a connection and then allow the people on the list to confirm or deny the connection.

Mobile Web
The mobile web refers to browser-based World Wide Web services accessed from handheld mobile devices, such as smartphones or feature phones, through a mobile or other wireless network. Increasingly, smartphones and other devices with wireless data access structures access the same “full” internet traditionally accessed on desktop or laptop computers.

Internet TV
Internet TV, in simple terms, is video and audio delivered over an Internet connection. It’s also known as Internet protocol television, or IPTV. You can watch Internet TV on a computer screen, a television screen (through a set-top box) or a mobile device like a cell phone or an iPod.

A virtual Identity
A virtual identity is part of an interface that represents the user in a virtual world such as a chat room, video game, or virtual common space. It is the manifestation of one’s self in the digital world of e-commerce, e-mail, social networking, and virtual worlds. Identity in our digital age is no longer tied to static, physical anchors, such as driver’s licenses or passports, or to nebulous entities, such as one’s reputation in the village. Virtual worlds and social networks have created playgrounds for interpersonal interaction. Gender, nationality, names, and appearances are all flexible and replaceable and require no relationship to the real world. These new identities are also portable and increasingly have the ability to transcend their origins and move to other social networks, other virtual worlds, and even other web pages.

Cloud computer
Cloud computing is an application-based software infrastructure that stores data on remote serves, which can be accessed through the internet. Cloud computing service providers usually maintain multiple copies of the data to mitigate instances of security threats, data loss, data breach, etc.