# STRATEGY, GOVERNANCE AND ETHICS

**CPA SECTION 5**
**CCP SECTION 5**
**CIFA SECTION 5**
**CICT SECTION 5**

# STUDY NOTES

# KASNEB SYLLABUS

**CONTENT:**

# CHAPTER ONE

# OVERVIEW OF MANAGEMENT

**Management** is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to *Harold Koontz*, ―Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals‖. According to *F.W. Taylor*, ―Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way‖.

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre - determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another. E.g.: For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.

Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of management to create such conditions which are conducive to maximum efforts so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc.

Therefore, we can say that good management includes both being effective and efficient. Being effective means doing the appropriate task i.e, fitting the square pegs in square holes and round pegs in round holes. Being efficient means doing the task correctly, at least possible cost with minimum wastage of resources.

## Importance of Management

**1. Encourages Initiative**

Management encourages initiative. **Initiative** means to do the right thing at the right time without being told or influenced by the superior. The employees should be encouraged to make their own plans and also to implement these plans. Initiative gives satisfaction to employees and success to organisation.

**2. Encourages Innovation**

Management also encourages innovation in the organisation. Innovation brings new ideas, new technology, new methods, new products, new services, etc. This makes the organisation more competitive and efficient.

**3. Facilitates growth and expansion**

Management makes optimum utilisation of available resources. It reduces wastage and increase efficiency. It encourages team work and motivates employees. It also reduces absenteeism and labour turnover. All this results in growth, expansion and diversification of the organisation.

**4. Improves life of workers**

Management shares some of its profits with the workers. It provides the workers with good working environment and conditions. It also gives the workers many financial and non-financial incentives. All this improves the quality of life of the workers.

**5. Improves corporate image**

If the management is good, then the organisation will produce good quality goods and services. This will improve the goodwill and corporate image of the organisation. A good corporate image brings many added benefits to the organisation.

**6. Motivates employees**

Management motivates employees by providing financial and non-financial incentives. These incentives increase the willingness and efficiency of the employees. This results in boosting productivity and profitability of the organisation.

**7. Optimum use of resources**

Management brings together the available resources. It makes optimum (best) use of these resources. This brings best results to the organisation.

**8. Reduces wastage**

Management reduces the wastage of human, material and financial resources. Wastage is reduced by proper production planning and control. If wastage is reduced then productivity will increase.

**9. Increases efficiency**

Efficiency is the relationship between returns and cost. Management uses many techniques to increase returns and to reduce costs. Higher efficiency brings many benefits to the organisation.

**10. Improves relations**

Management improves relations between individuals, groups, departments and between levels of management. Better relations lead to better team work. Better team work brings success to the organisation.

**11. Reduces absenteeism and labour turnover**

Absenteeism means the employee is absent without permission. Labour Turnover means the employee leaves the organisation.

Labour absenteeism and turnover increases the cost and causes many problems in the smooth functioning of the organisation. Management uses different techniques to reduce absenteeism and labour turnover in the organisation.

**12. Encourages Team Work**
Management encourages employees to work as a team. It develops a team spirit in the organisation. This unity bring success to the organisation.

## Objectives of Management

The main objectives of management are:

1. **Getting Maximum Results with Minimum Efforts -** The main objective of management is to secure maximum outputs with minimum efforts & resources. Management is basically concerned with thinking & utilizing human, material & financial resources in such a manner that would result in best combination. This combination results in reduction of various costs.
2. **Increasing the Efficiency of factors of Production -** Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakage of all kinds, this in turn leads to saving of time, effort and money which is essential for the growth & prosperity of the enterprise.
3. **Maximum Prosperity for Employer & Employees -** Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employee in the shape of good working condition, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other hand.
4. **Human betterment & Social Justice -** Management serves as a tool for the upliftment as well as betterment of the society. Through increased productivity & employment, management ensures better standards of living for the society. It provides justice through its uniform policies.

# Principles of Management

A principle refers to a fundamental truth. It establishes cause and effect relationship between two or more variables under given situation. They serve as a guide to thought & actions. Therefore, management principles are the statements of fundamental truth based on logic which provides guidelines for managerial decision making and actions. These principles are derived: -

a. On the basis of observation and analysis i.e. practical experience of managers.
b. By conducting experimental studies.

**There are 14 Principles of Management described by Henri Fayol.**

1. **Division of Labor**
    a. Henri Fayol has stressed on the specialization of jobs.

b. He recommended that work of all kinds must be divided & subdivided and allotted to various persons according to their expertise in a particular area.
c. Subdivision of work makes it simpler and results in efficiency.
d. It also helps the individual in acquiring speed, accuracy in his performance.
e. Specialization leads to efficiency & economy in spheres of business.

**2. Party of Authority & Responsibility**

a. Authority & responsibility are co-existing.
b. If authority is given to a person, he should also be made responsible.
c. In a same way, if anyone is made responsible for any job, he should also have concerned authority.
d. Authority refers to the right of superiors to get exactness from their sub-ordinates whereas responsibility means obligation for the performance of the job assigned.
e. There should be a balance between the two i.e. they must go hand in hand.
f. Authority without responsibility leads to irresponsible behavior whereas responsibility without authority makes the person ineffective.

**3. Principle of One Boss**

a. A sub-ordinate should receive orders and be accountable to one and only one boss at a time.
b. In other words, a sub-ordinate should not receive instructions from more than one person because -

- It undermines authority
- Weakens discipline
- Divides loyalty
- Creates confusion
- Delays and chaos
- Escaping responsibilities
- Duplication of work
- Overlapping of efforts

c. Therefore, dual sub-ordination should be avoided unless and until it is absolutely essential.
d. Unity of command provides the enterprise a disciplined, stable & orderly existence.
e. It creates harmonious relationship between superiors and sub-ordinates.

**4. Unity of Direction**

a. Fayol advocates one head one plan which means that there should be one plan for a group of activities having similar objectives.
b. Related activities should be grouped together. There should be one plan of action for them and they should be under the charge of a particular manager.
c. According to this principle, efforts of all the members of the organization should be directed towards common goal.
d. Without unity of direction, unity of action cannot be achieved.
e. In fact, unity of command is not possible without unity of direction.

| Basis | Unity of command | Unity of direction |
|---|---|---|
| Meaning | It implies that a sub-ordinate should receive orders & instructions from only one boss. | It means one head, one plan for a group of activities having similar objectives. |
| Nature | It is related to the functioning of personnel's. | It is related to the functioning of departments, or organization as a whole. |
| Necessity | It is necessary for fixing responsibility of each subordinates. | It is necessary for sound organization. |
| Advantage | It avoids conflicts, confusion & chaos. | It avoids duplication of efforts and wastage of resources. |
| Result | It leads to better superior sub-ordinate relationship. | It leads to smooth running of the enterprise. |

Therefore it is obvious that they are different from each other but they are dependent on each other i.e. unity of direction is a pre-requisite for unity of command. But it does not automatically comes from the unity of direction.

5. **Equity**
   a. Equity means combination of fairness, kindness & justice.
   b. The employees should be treated with kindness & equity if devotion is expected of them.
   c. It implies that managers should be fair and impartial while dealing with the subordinates.
   d. They should give similar treatment to people of similar position.
   e. They should not discriminate with respect to age, caste, sex, religion, relation etc.
   f. Equity is essential to create and maintain cordial relations between the managers and sub-ordinate.
   g. But equity does not mean total absence of harshness.
   h. Fayol was of opinion that, ―at times force and harshness might become necessary for the sake of equity‖.

6. **Order**
   a. This principle is concerned with proper & systematic arrangement of things and people.
   b. Arrangement of things is called material order and placement of people is called social order.
   c. Material order- There should be safe, appropriate and specific place for every article and every place to be effectively used for specific activity and commodity.

d. Social order- Selection and appointment of most suitable person on the suitable job. There should be a specific place for every one and everyone should have a specific place so that they can easily be contacted whenever need arises.
e.

7. **Discipline**
   a. According to Fayol, ―Discipline means sincerity, obedience, respect of authority & observance of rules and regulations of the enterprise‖.
   b. This principle applies that subordinate should respect their superiors and obey their order.
   c. It is an important requisite for smooth running of the enterprise.
   d. Discipline is not only required on path of subordinates but also on the part of management.
   e. Discipline can be enforced if -

- There are good superiors at all levels.
- There are clear & fair agreements with workers.
- Sanctions (punishments) are judiciously applied.

8. **Initiative**
   a. Workers should be encouraged to take initiative in the work assigned to them.
   b. It means eagerness to initiate actions without being asked to do so.
   c. Fayol advised that management should provide opportunity to its employees to suggest ideas, experiences& new method of work.
   d. It helps in developing an atmosphere of trust and understanding.
   e. People then enjoy working in the organization because it adds to their zeal and energy.
   f. To suggest improvement in formulation & implementation of place.
   g. They can be encouraged with the help of monetary & non-monetary incentives.

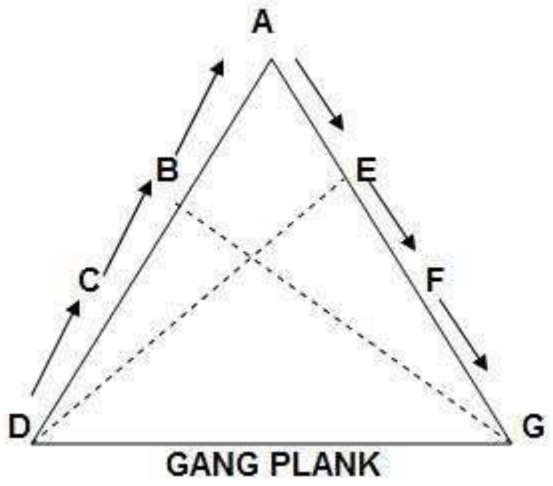
9. **Fair Remuneration**
   a. The quantum and method of remuneration to be paid to the workers should be fair, reasonable, satisfactory & rewarding of the efforts.
   b. As far as possible it should accord satisfaction to both employer and the employees.
   c. Wages should be determined on the basis of cost of living, work assigned, financial position of the business, wage rate prevailing etc.
   d. Logical & appropriate wage rates and methods of their payment reduce tension & differences between workers & management creates harmonious relationship and pleasing atmosphere of work.
   e. Fayol also recommended provision of other benefits such as free education, medical & residential facilities to workers.

10. **Stability of Tenure**
    a. Fayol emphasized that employees should not be moved frequently from one job position to another i.e. the period of service in a job should be fixed.

b. Therefore employees should be appointed after keeping in view principles of recruitment & selection but once they are appointed their services should be served.
c. According to Fayol. ―Time is required for an employee to get used to a new work & succeed to doing it well but if he is removed before that he will not be able to render worthwhile services‖.
d. As a result, the time, effort and money spent on training the worker will go waste.
e. Stability of job creates team spirit and a sense of belongingness among workers which ultimately increase the quality as well as quantity of work.

**11. Scalar Chain**

a. Fayol defines scalar chain as 'The chain of superiors ranging from the ultimate authority to the lowest‖.
b. Every orders, instructions, messages, requests, explanation etc. has to pass through Scalar chain.
c. But, for the sake of convenience & urgency, this path can be cut shirt and this short cut is known as Gang Plank.
d. A **Gang Plank** is a temporary arrangement between two different points to facilitate quick & easy communication as explained below:




In the figure given, if D has to communicate with G he will first send the communication upwards with the help of C, B to A and then downwards with the help of E and F to G which will take quite some time and by that time, it may not be worth therefore a gang plank has been developed between the two.

e. **Gang Plank** clarifies that management principles are not rigid rather they are very flexible. They can be moulded and modified as per the requirements of situations

**12. Sub-Ordination of Individual Interest to General Interest**

a. An organization is much bigger than the individual it constitutes therefore interest of the undertaking should prevail in all circumstances.
b. As far as possible, reconciliation should be achieved between individual and group interests.

c. But in case of conflict, individual must sacrifice for bigger interests.
d. In order to achieve this attitude, it is essential that -

- Employees should be honest & sincere.
- Proper & regular supervision of work.
- Reconciliation of mutual differences and clashes by mutual agreement. For example, for change of location of plant, for change of profit sharing ratio, etc.

**13. Espirit De' Corps (can be achieved through unity of command)**

a. It refers to team spirit i.e. harmony in the work groups and mutual understanding among the members.
b. Spirit De‘ Corps inspires workers to work harder.
c. Fayol cautioned the managers against dividing the employees into competing groups because it might damage the moral of the workers and interest of the undertaking in the long run.
d. To inculcate Espirit De‘ Corps following steps should be undertaken -
    - There should be proper co-ordination of work at all levels
    - Subordinates should be encouraged to develop informal relations among themselves.
    - Efforts should be made to create enthusiasm and keenness among subordinates so that they can work to the maximum ability.
    - Efficient employees should be rewarded and those who are not up to the mark should be given a chance to improve their performance.
    - Subordinates should be made conscious of that whatever they are doing is of great importance to the business & society.
e. He also cautioned against the more use of Britain communication to the subordinates i.e. face to face communication should be developed. The managers should infuse team spirit & belongingness. There should be no place for misunderstanding. People then enjoy working in the organization & offer their best towards the organization.

**14. Centralization & De-Centralization**

a. Centralization means concentration of authority at the top level. In other words, centralization is a situation in which top management retains most of the decision making authority.
b. Decentralization means disposal of decision making authority to all the levels of the organization. In other words, sharing authority downwards is decentralization.
c. According to Fayol, ―Degree of centralization or decentralization depends on no. of factors like size of business, experience of superiors, dependability & ability of subordinates etc.
d. Anything which increases the role of subordinate is decentralization & anything which decreases it is centralization.
e. Fayol suggested that absolute centralization or decentralization is not feasible. An organization should strike to achieve a lot between the two.

## Features of Principles of Management

**Principles of Management are *Universal***

a. Management principles are applicable to all kinds of organizations - business & non business.
b. They are applicable to all levels of management.
c. Every organization must make best possible use by the use of management principles.
d. Therefore, they are universal or all pervasive.

**Principles of Management are *Flexible***

a. Management principles are dynamic guidelines and not static rules.
b. There is sufficient room for managerial discretion i.e. they can be modified as per the requirements of the situation.
c. Modification & improvement is a continuous phenomenon in case of principles of management.

**Principles of Management have a *Cause & Effect Relationship***

a. Principles of management indicate cause and effect relationship between related variables.
b. They indicate what will be the consequence or result of certain actions. Therefore, if one is known, the other can be traced.

**Principles of Management - *Aims at Influencing Human Behavior***

a. Human behavior is complex and unpredictable.
b. Management principles are directed towards regulating human behavior so that people can give their best to the organization.
c. Management is concerned with integrating efforts and harmonizing them towards a goal.
d. But in certain situations even these principles fail to understand human behavior.

**Principles of Management are of *Equal Importance***

a. All management principles are equally important.
b. No particular principle has greater importance than the other.
c. They are all required together for the achievement of organizational goals.

# Management can be defined in detail in following categories:

1. Management as a Process
2. Management as an Activity
3. Management as a Discipline
4. Management as a Group
5. Management as a Science
6. Management as an Art
7. Management as a Profession

**Management as an Activity**

Like various other activities performed by human beings such as writing, playing, eating, cooking etc, management is also an activity because a manager is one who accomplishes the objectives by directing the efforts of others. According to Koontz, ―Management is what a manager does‖. Management as an activity includes –

1. **Informational activities -** In the functioning of business enterprise, the manager constantly has to receive and give information orally or in written. A communication link has to be maintained with subordinates as well as superiors for effective functioning of an enterprise.
2. **Decisional activities -** Practically all types of managerial activities are based on one or the other types of decisions. Therefore, managers are continuously involved in decisions of different kinds since the decision made by one manager becomes the basis of action to be taken by other managers. (E.g. Sales Manager is deciding the media & content of advertising).
3. **Inter-personal activities -** Management involves achieving goals through people. Therefore, managers have to interact with superiors as well as the sub-ordinates. They must maintain good relations with them. The inter-personal activities include with the sub-ordinates and taking care of the problem. (E.g. Bonuses to be given to the sub-ordinates).

**Management as a Discipline**

Management as a discipline refers to that branch of knowledge which is connected to study of principles & practices of basic administration. It specifies certain code of conduct to be followed by the manager & also various methods for managing resources efficiently. Management as a discipline specifies certain code of conduct for managers & indicates various methods of managing an enterprise. Management is a course of study which is now formally being taught in the institutes and universities after completing a prescribed course or by obtaining degree or diploma in management, a person can get employment as a manager. Any branch of knowledge that fulfils following two requirements is known as discipline:

1. There must be scholars & thinkers who communicate relevant knowledge through research and publications.
2. The knowledge should be formally imparted by education and training programmes.

Since management satisfies both these problems, therefore it qualifies to be a discipline. Though it is comparatively a new discipline but it is growing at a faster pace.

**Management as a Group**

Management as a group refers to all those persons who perform the task of managing an enterprise. When we say that management of ABC & Co. is good, we are referring to a group of people those who are managing. Thus as a group technically speaking, management will include all managers from chief executive to the first - line managers (lower-level managers). But in common practice management includes only top management i.e. Chief Executive, Chairman, General Manager, Board of Directors etc. In other words, those who are concerned with making important decisions, these persons enjoy the authorities to use resources to accomplish organizational objectives & also responsibility to for their efficient utilization. Management as a group may be looked upon in 2 different ways:

1. All managers taken together.
2. Only the top management

The interpretation depends upon the context in which these terms are used. Broadly speaking, there are 3 types of managers -

1. **Patrimonial / Family Manager:** Those who have become managers by virtue of their being owners or relatives of the owners of company.
2. **Professional Managers:** Those who have been appointed on account of their specialized knowledge and degree.
3. **Political Managers / Civil Servants:** Those who manage public sector undertakings.

Managers have become a part of elite group of society as they enjoy higher standard of living in the society.

**Management as a Science**

Science is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon. It establishes cause and effect relationship between two or more variables and underlines the principles governing their relationship. These principles are developed through scientific method of observation and verification through testing.

Science is characterized by following main features:

1. **Universally acceptance principles -** Scientific principles represents basic truth about a particular field of enquiry. These principles may be applied in all situations, at all time & at all places. E.g. - law of gravitation which can be applied in all countries irrespective of the time.

   Management also contains some fundamental principles which can be applied universally like the Principle of Unity of Command i.e. one man, one boss. This principle is applicable to all type of organization - business or non business.
2. **Experimentation & Observation -** Scientific principles are derived through scientific investigation & researching i.e. they are based on logic. E.g. the principle that earth goes round the sun has been scientifically proved.

   Management principles are also based on scientific enquiry & observation and not only on the opinion of Henry Fayol. They have been developed through experiments & practical experiences of large no. of managers. E.g. it is observed that fair remuneration to personal helps in creating a satisfied work force.
3. **Cause & Effect Relationship -** Principles of science lay down cause and effect relationship between various variables. E.g. when metals are heated, they are expanded. The cause is heating & result is expansion.

   The same is true for management, therefore it also establishes cause and effect relationship. E.g. lack of parity (balance) between authority & responsibility will lead to ineffectiveness. If you know the cause i.e. lack of balance, the effect can be ascertained easily i.e. in effectiveness. Similarly if workers are given bonuses, fair wages they will work hard but when not treated in fair and just manner, reduces productivity of organization.
4. **Test of Validity & Predictability -** Validity of scientific principles can be tested at any time or any number of times i.e. they stand the test of time. Each time these tests will

give same result. Moreover future events can be predicted with reasonable accuracy by using scientific principles. E.g. $H_2$ & $O_2$ will always give $H_2O$.
Principles of management can also be tested for validity. E.g. principle of unity of command can be tested by comparing two persons - one having single boss and one having 2 bosses. The performance of 1st person will be better than 2nd.

It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry etc. The main reason for the inexactness of science of management is that it deals with human beings and it is very difficult to predict their behavior accurately. Since it is a social process, therefore it falls in the area of social sciences. It is a flexible science & that is why its theories and principles may produce different results at different times and therefore it is a behavior science. Ernest Dale has called it as a *Soft Science*.

**Management as an Art**

Art implies application of knowledge & skill to trying about desired results. An art may be defined as personalized application of general theoretical principles for achieving best possible results. Art has the following characters -

1. **Practical Knowledge:** Every art requires practical knowledge therefore learning of theory is not sufficient. It is very important to know practical application of theoretical principles. E.g. to become a good painter, the person may not only be knowing different colour and brushes but different designs, dimensions, situations etc to use them appropriately. A manager can never be successful just by obtaining degree or diploma in management; he must have also know how to apply various principles in real situations by functioning in capacity of manager.
2. **Personal Skill:** Although theoretical base may be same for every artist, but each one has his own style and approach towards his job. That is why the level of success and quality of performance differs from one person to another. E.g. there are several qualified painters but M.F. Hussain is recognized for his style. Similarly management as an art is also personalized. Every manager has his own way of managing things based on his knowledge, experience and personality, that is why some managers are known as good managers (like Aditya Birla, Rahul Bajaj) whereas others as bad.
3. **Creativity:** Every artist has an element of creativity in line. That is why he aims at producing something that has never existed before which requires combination of intelligence & imagination. Management is also creative in nature like any other art. It combines human and non-human resources in useful way so as to achieve desired results. It tries to produce sweet music by combining chords in an efficient manner.
4. **Perfection through practice:** Practice makes a man perfect. Every artist becomes more and more proficient through constant practice. Similarly managers learn through an art of trial and error initially but application of management principles over the years makes them perfect in the job of managing.
5. **Goal-Oriented:** Every art is result oriented as it seeks to achieve concrete results. In the same manner, management is also directed towards accomplishment of pre-determined goals. Managers use various resources like men, money, material, machinery & methods to promote growth of an organization.

Thus, we can say that management is an art therefore it requires application of certain principles rather it is an art of highest order because it deals with moulding the attitude and behavior of people at work towards desired goals.

**Management as both Science and Art**

Management is both an art and a science. The above mentioned points clearly reveals that management combines features of both science as well as art. It is considered as a science because it has an organized body of knowledge which contains certain universal truth. It is called an art because managing requires certain skills which are personal possessions of managers. Science provides the knowledge & art deals with the application of knowledge and skills.

A manager to be successful in his profession must acquire the knowledge of science & the art of applying it. Therefore management is a judicious blend of science as well as an art because it proves the principles and the way these principles are applied is a matter of art. Science teaches to 'know' and art teaches to 'do'. E.g. a person cannot become a good singer unless he has knowledge about various ragas & he also applies his personal skill in the art of singing. Same way it is not sufficient for manager to first know the principles but he must also apply them in solving various managerial problems that is why, science and art are not mutually exclusive but they are complementary to each other (like tea and biscuit, bread and butter etc.).

The old saying that ―Manager are Born‖ has been rejected in favor of ―Managers are Made‖. It has been aptly remarked that management is the oldest of art and youngest of science. To conclude, we can say that science is the root and art is the fruit.

**Management as a Profession**

Over a large few decades, factors such as growing size of business unit, separation of ownership from management, growing competition etc have led to an increased demand for professionally qualified managers. The task of manager has been quite specialized. As a result of these developments the management has reached a stage where everything is to be managed professionally.

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:

1. **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.
2. **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.
3. **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.

4. **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.
5. **Representative Association -** For the regulation of profession, existance 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.

From above discussion, it is quite clear that management fulfills several essentials of a profession, even then it is not a full fledged profession because: -

a. It does not restrict the entry in managerial jobs for account of one standard or other.
b. No minimum qualifications have been prescribed for managers.
c. No management association has the authority to grant a certificate of practice to various managers.
d. All managers are supposed to abide by the code formulated by AIMA,
e. Competent education and training facilities do not exist.
f. Managers are responsible to many groups such as shareholders, employees and society. A regulatory code may curtail their freedom.
g. Managers are known by their performance and not mere degrees.
h. The ultimate goal of business is to maximize profit and not social welfare. That is why Haymes has rightly remarked, ―The slogan for management is becoming - 'He who serves best, also profits most'.‖

## FUNCTIONS AND ROLES OF MANAGEMENT

The management functions are the separate parts (activities) that make up the whole process of management. They can be described as the activities that are inherent in most management jobs. Many of these activities can be grouped into one of the following general functions.

a) Planning

Planning involves determining the organizations goals and the best ways of reaching them. Plans permit:

i. The organization to obtain and commit the resources required to reach its objectives.

ii. Members of the organizations to carry on activities in line with the chosen objectives.

iii. Monitoring of progress towards the objectives with view of taking corrective action.

**b) Organizing**

This is the second basic managerial function and it is the process of grouping activities and resources in a logical and appropriate fashion. Basically it is creating the organizational chart for a firm. (Determining the structure of the organization - the jobs to be done, who is to do them, how the jobs are to be grouped, how much authority each manager is to have and how many employees each is to supervise).

**c) Leading**

Is the set of processes associated with guiding and directing employees towards goal attainment. Attempt to assure that the organization is moving towards its goals. It includes motivation, leadership and communication.

**d) Controlling**

This is the final basic management function and it is the process of monitoring and adjusting organizational activities towards goal attainment.

**Successful management**

Successful management involves the achievement of both efficiency and effectiveness. Efficiency means that resources are used in such a way that they are not wasted. Having employees sitting idle waiting to be allocated work is an example of inefficiency.

Another example is allowing large surpluses of funds to sit idle in bank accounts earning little interest.

Effectiveness means doing the right things in the right way at the right time. For example entering a new market just before it starts to expand or exiting from a market just as it starts to decline is a sign of effectiveness.

Effectiveness is solution oriented. Successful management means a successful organization.

Organizations function within the larger society and the performance of organizations in totality is a key factor to the performance of a society or Nation.

Another efficient manager is one who achieves outputs that measure to inputs i.e. he is able to minimise the cost of resources.

## ROLES OF MANAGEMENT

Henry Mintzberg analyzed how managers spend their time and came to the conclusion that there are three basic roles that managers play:- interpersonal roles, informational roles and decisional roles.

### a) Interpersonal Roles

There are three interpersonal roles in the manager's job. The first is that of Figurehead. As head of a unit the manager puts in an appearance as the representative of the organization by performing certain duties or ceremonies e.g. attending an employees wedding, welcoming guests etc.

The second role is that of leader. As a leader the manager hires employees, trains, motivates and encourages them to perform better.

Third the manager plays the interpersonal role of liaison, which involves dealing with people outside the organization on a regular basis e.g. bankers, suppliers or clients.

### b) Information Roles

According to Mintzberg receiving and communicating information are perhaps the most important aspects of a managers job. First he must act as a monitor i.e. he actively watches the environment for information that might be relevant to the organization. Secondly the manager must act as a disseminator by relaying the information that he has gathered through monitoring to the appropriate people in the organization.

Third he must act as the spokesman of the organization by presenting information of meaningful content and/or answering questions on the firms behalf. You probably have seen leaders answering questions from the press about issues relating to their organizations or defending their organizations against criticism or allegations levelled against them.

### c) Decisional Roles

These are the roles that managers take when they make decisions about certain issues. Under the decisional roles the manager acts as the entrepreneur by looking for opportunities that the organization can pursue to improve itself e.g. a profitable investment.

Second the manager acts as the disturbance handler by resolving conflicts between employees and responding to situations beyond him/her control e.g. strikes, bankrupt customers, breach of contract etc.

Third the manager must act as a resource allocator by being responsible for deciding how and to whom the resources of the organization and the managers own time will be allocated.

Fourthly the manager plays the decisional role of a negotiator. In this role the manager attempts to work out agreements and contracts that operate in the best interest of the organization.

**Note:**

The functional definition of management as a process of planning, organizing, leading and controlling is somewhat oversimplified according to Mintzberg. Managers do much more than the four basic functions contained in the definition.

Mintzberg's work calls attention to the uncertain, turbulent environments in which the manager operates.

**LEVELS OF MANAGEMENT**

The term **—Levels of Management**' refers to a line of demarcation between various managerial positions in an organization. The number of levels in management increases when the size of the business and work force increases and vice versa. The level of management determines a chain of command, the amount of authority & status enjoyed by any managerial position. The levels of management can be classified in three broad categories:

1. **Top level / Administrative level**
2. **Middle level / Executory**
3. **Low level / Supervisory / Operative / First-line managers**

Managers at all these levels perform different functions. The role of managers at all the three levels is discussed below:

1. **Top Level of Management/ Administrative level**
   It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions.
   The role of the top management can be summarized as follows -
   a. Top management lays down the objectives and broad policies of the enterprise.
   b. It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
   c. It prepares strategic plans & policies for the enterprise.
   d. It appoints the executive for middle level i.e. departmental managers.
   e. It controls & coordinates the activities of all the departments.
   f. It is also responsible for maintaining a contact with the outside world.
   g. It provides guidance and direction.
   h. The top management is also responsible towards the shareholders for the performance of the enterprise.
2. **Middle Level of Management/ Executory**
   The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department. They devote

more time to organizational and directional functions. In small organization, there is only one layer of middle level of management but in big enterprises, there may be senior and junior middle level management. Their role can be emphasized as -

a. They execute the plans of the organization in accordance with the policies and directives of the top management.
b. They make plans for the sub-units of the organization.
c. They participate in employment & training of lower level management.
d. They interpret and explain policies from top level management to lower level.
e. They are responsible for coordinating the activities within the division or department.
f. It also sends important reports and other important data to top level management.
g. They evaluate performance of junior managers.
h. They are also responsible for inspiring lower level managers towards better performance.

3. **Lower Level of Management /Supervisory / Operative / First-line managers**
Lower level is also known as supervisory / operative level of management. It consists of supervisors, foreman, section officers, superintendent etc. According to *R.C. Davis*, ―Supervisory management refers to those executives whose work has to be largely with personal oversight and direction of operative employees‖. In other words, they are concerned with direction and controlling function of management. Their activities include -

a. Assigning of jobs and tasks to various workers.
b. They guide and instruct workers for day to day activities.
c. They are responsible for the quality as well as quantity of production.
d. They are also entrusted with the responsibility of maintaining good relation in the organization.
e. They communicate workers problems, suggestions, and recommendatory appeals etc to the higher level and higher level goals and objectives to the workers.
f. They help to solve the grievances of the workers.
g. They supervise & guide the sub-ordinates.
h. They are responsible for providing training to the workers.
i. They arrange necessary materials, machines, tools etc for getting the things done.
j. They prepare periodical reports about the performance of the workers.
k. They ensure discipline in the enterprise.
l. They motivate workers.
m. They are the image builders of the enterprise because they are in direct contact with the workers.

**MANAGERIAL SKILLS**

Skills are what separates good managers from others. Like a player in any game, the more skilful a manager is, the greater are his chances of success. Most scholars and writers agree that for effective management the primary skills are technical, interpersonal, conceptual and diagnostic.

**a) Technical Skills** They are the skills needed to perform specialized tasks. They enable one to use the tools, procedures or techniques of a specialized field. These skills are gained through

formal training. These skills are specially important for First line managers as they are the ones in the real operations of the firm.
**b) Interpersonal (Human Skills)** These are the skills needed to enable one to work with, understand and motivate others, either as individuals or as groups. They include the ability to understand someone else's position, to present ones own position in a reasonable, amicable manner. The better a manager's human skills are, the more effective he/she is likely to be, since management is basically getting work done through people.
**c) Conceptual Skills** These relate to the managers mental ability to coordinate and integrate all the organization's interests and activities i.e. to be able to think in the abstract, to see relationships between forces that others cannot see and to take a global perspective of the organization and its environment. For example if a manager recognises an opportunity that others have not and then successfully exploits that opportunity he is drawing on conceptual skills. Conceptual skills are most important for top managers who must look for opportunities to be exploited by the organization.
**d) Diagnostic Skills** The skills used to define and understand situations and events. They are mainly directed at problem solving. For example, if a manager notices there is too much waste in production, the first step is to define the problem, next determine what is causing the problem and third identify way(s) of solving the problem.

**MANAGEMENT AND ADMINISTRATION**

According to *Theo Haimann*, ―Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects‖. It refers to the activities of higher level. It lays down basic principles of the enterprise. According to Newman, ―Administration means guidance, leadership & control of the efforts of the groups towards some common goals‖.
Whereas, management involves conceiving, initiating and bringing together the various elements; coordinating, actuating, integrating the diverse organizational components while sustaining the viability of the organization towards some pre-determined goals. In other words, it is an art of getting things done through & with the people in formally organized groups.
The difference between Management and Administration can be summarized under 2 categories:

1. **Functions**
2. **Usage / Applicability**

**On the Basis of Functions: -**

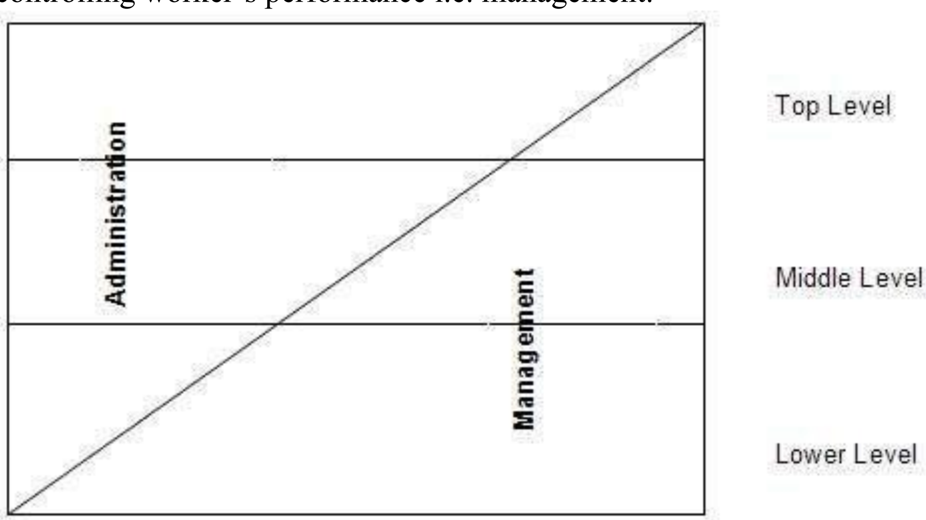
| Basis | Management | Administration |
|---|---|---|
| Meaning | Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals. | It is concerned with formulation of broad objectives, plans & policies. |
| Nature | Management is an executing function. | Administration is a decision-making function. |
| Process | Management decides who should as it & how should he do it. | Administration decides what is to be done & when it is to be done. |

| | | |
|---|---|---|
| Function | Management is a doing function because managers get work done under their supervision. | Administration is a thinking function because plans & policies are determined under it. |
| Skills | Technical and Human skills | Conceptual and Human skills |
| Level | Middle & lower level function | Top level function |

**On the Basis of Usage: -**

| **Basis** | **Management** | **Administration** |
|---|---|---|
| Applicability | It is applicable to business concerns i.e. profit-making organization. | It is applicable to non-business concerns i.e. clubs, schools, hospitals etc. |
| Influence | The management decisions are influenced by the values, opinions, beliefs & decisions of the managers. | The administration is influenced by public opinion, govt. policies, religious organizations, customs etc. |
| Status | Management constitutes the employees of the organization who are paid remuneration (in the form of salaries & wages). | Administration represents owners of the enterprise who earn return on their capital invested & profits in the form of dividend. |

Practically, there is no difference between management & administration. Every manager is concerned with both - administrative management function and operative management function as shown in the figure. However, the managers who are higher up in the hierarchy denote more time on administrative function & the lower level denote more time on directing and controlling worker's performance i.e. management.




The Figure above clearly shows the degree of administration and management performed by the different levels of management

# CHAPTER TWO

# DEVELOPMENT OF MANAGEMENT THOUGHT

**Importance of Theory**

This lesson mainly traces the history behind the development of management theory. The theories and history of management are important to managers for various reasons. History helps managers understand current development and avoid mistakes of the past. History and theory together foster an understanding and appreciation of current situations and developments and facilitate the prediction of future conditions.

Theory helps managers organize information and therefore approach problems systematically. Without theories all managers would have are, intuition, hunches and hopes which may not be useful in todays very complex and dynamic organizations. However there is not yet any verified and generally accepted theory of management that managers can apply in all situations. Therefore managers must familiarise themselves with the major theories that exist.

**Ancient Management**

As a scientific discipline management is only a few decades old. However indications of management in use go back thousands of years into ancient civilizations. For example one of the earliest recorded uses of management is the Egyptians construction of the pyramids. It is also recorded that the Chinese used management in government from as early as 1500 B.C.

The Greeks also used management in government from as early as 1000 B.C. Babylonians have also been recorded to have used management in government from as early as 2700 B.C.

The management of the Great-Roman empire could not have succeeded without use of management. It is recorded that from about 800 B.C the Romans were practising organizing principles. A lot of bureaucracy for instance was in practice in the ancient Roman Army. The works of people like Socrates (400 B.C) and Plato (350B.C.) all indicate some elements of management. However despite this widespread practice of management there was little interest in management as a scientific discipline until a century ago. It was not until the late nineteenth century that large businesses requiring systematic administration started to emerge. Also before the late 19th century governments and military organizations were not interested in the profits so they paid little attention to efficiency and effectiveness. Our study of the theory of management will focus on the three well established schools of management theory.

The Classical School
The Behavioural School
The Management Science School

## THE CLASSICAL SCHOOL

This school of thought emerged around the turn of the twentieth century. It is divided into two sub areas: Scientific management, which historically focused on the work of individuals and classical organization theory (administrative management which was concerned with how organizations should be put together).

## SCIENTIFIC MANAGEMENT

The main objective of Scientific Management in the early days was to determine how jobs could be designed in order to maximise output per employee (efficiency). The main contributor to scientific management was Frederick W. Taylor until the Husband Team of Frank and Lillian Gilbreth also added more light to scientific management.

### (a) Frederick W. Taylor and Scientific Management

Taylor was an Industrial Engineer who worked in the United States at a time when industries were facing shortage of skilled labour. For factories to expand productivity, ways had to be looked for to increase the efficiency of employees. Management faced questions such as, whether some elements of work could be combined or eliminated, whether sequence of jobs could be improved or whether there was "one best way" of doing a job. In trying to answer these questions Taylor slowly developed a body of principles that constitute the essence of scientific management.

Taylor's first job was at Midvale Steel Company in Philadelphia:While here Taylor analysed and timed steel workers movements on a series of jobs. With time he was able to establish the best way to do a particular job. But he noticed the workers did not appreciate the speed factor because they feared that work would finish and they would be laid off. So Taylor encouraged employers to pay the more productive workers at a higher rate based on the profits that would result. This system is called the differential rate system. Taylor was encouraged by the results of his work and decided to become a private consultant. His most significant work was while he was consulting for two companies: Simonds Rolling Machine Factory and Bethlehem Steel Corporation.

At Simonds he studied and redesigned jobs, introduced rest breaks and adopted a piece rate pay system. In one operation he studied 120 women employed in tedious work with long working hours. The work involved inspecting bicycle ball bearings. Taylor started by studying the movements of the best workers and timed them. Then he trained the others in the methods of their more effective co-workers and either transferred or laid off the inefficient ones. He introduced rest periods and the differential rate system and the results were that accuracy of the work improved by two-thirds, wages rose by eighty to hundred percent, worker morale increased and thirty five inspectors were now able to do work previously done by 120.

At Bethlehem Steel Taylor and a co-worker studied and timed the operations involved in unloading and loading railcars. At the time each worker earned $1.15 per day unloaded an average of 12 1/2 tons. Taylor introduced rest periods in the day and realised that each man could

handle about 48 tons a day. He set a standard of 47 1/2 tons and a rate of $1.85 for those who met the standard. The results were increased efficiency.
However despite his achievements trade unionists and workers started to resist the ideas of Taylor and in defending his philosophy Taylor outlined that it rested on four major principles.

- The development of a true science of management so that for example the methods for performing each task could be determined.
- The scientific selection of the worker so that each worker would be given responsibility for the task for which he/she was best suited.
- The scientific education and development of the worker, and
- Intimate, friendly cooperation between management and labour.

In conclusion Taylor said that the principles could only succeed if there was a complete mental revolution on the part of both management and labour to the effect that they must take their eyes off the profits and together concentrate on increasing production, so that the profits were so large that they did not have quarrels about sharing them. He strongly believed that the benefits from increased productivity would accrue to both management and labour.

**(b) The Gilbreths**

Frank (1888-1924) and Lilian (1878-1972) were a husband and wife team who also contributed to scientific management. Lilian focused her studies on ways of promoting the welfare of the individual worker. To her, scientific management has one ultimate aim: to help workers reach their full potential as human beings. Lilian also assisted Frank in the areas of time and motion studies and industrial efficiency and was an earlier contributor to personnel management. Frank who began his work as an apprentice bricklayer, developed a technique that tripled the amount of work a bricklayer could do in a day. He studied motion and fatigue and said that they were intertwined. Every motion that was eliminated also reduced fatigue. Both Gilbreths argued that motion study would raise morale because of its obvious physical benefits. They developed a three position plan of promotion that was intended to serve as an employee development program as well as a morale booster. According to this plan a worker would do his or her present job, prepare for the next one and train his or her successor all at the same time. Thus every worker would always be a doer, a learner and trainer and hence workers would look forward to new opportunities.

**(c) Henry L. Gantt (1861-1919)**

Henry Gantt who was an associate of Taylor developed the Gantt Chart - a device for scheduling work after a span of time. Gantt also developed the bonus system of paying workers. Both the Gantt Chart and the bonus system of paying workers are in use in todays complex organizations.

**Limitations of Scientific Management**

- During Tayor_s time, the mental revolution he advocated rarely came about and often increased productivity and led to layoffs.

It assumed people were rational and therefore motivated only by material gains. Taylor and his followers overlooked the social needs of workers.

They assumed that one had only to tell workers what to do to increase their earnings and they would do it. But people have a need for other things other than money e.g. recognition

They also overlooked the human desire for job satisfaction and workers became more willing to go out on strike over job conditions than salary.

So the scientific model of the worker as a rational being interested only in higher wages became increasingly inappropriate as time went on and employer and labourers got increasingly dissatisfied with it.

An evaluation of scientific management indicates that scientific management was developed to achieve two objectives to increase workers' productivity and to improve workers' economic welfare. The first objective was achieved because the methods of scientific management such as time and motion, piece rate incentives, Gantt Chart and production standardization were accepted by industries. The second objective was however not fully achieved. Managers used scientific management to improve workers' productivity but they often did not see the benefits. Productivity often led to layoffs or changes in piece rates, so that workers had to produce more for the same income. The enthusiasm for scientific management ended around 1930.

**PRINCIPLES OF WORK MANAGEMENT FROM THE SCIENTIFIC MANAGEMENT SCHOOL OF THOUGHT**

**THE CLASSICAL ORGANIZATION THEORY**

This is the other branch of classical management. Classical organization theory grew out of the need to find guidelines for managing complex organizations such as factories. Henry Fayol is recognised as the father of classical organization theory because he was the first man to systematize managerial behaviour. Another contributor to classical organization theory was Max Weber.

**(a) Henry Fayol (1841-1925) and the Classical Organization Theory**

Fayol believed that sound managerial practice falls into certain patterns that can be identified and analyzed. Fayol who was trained as a mining engineer worked his way from a junior executive to director of the French Coal and Iron Combine Company. Fayol often confessed that he did not attribute his success to his personal abilities but rather to the methods that he practised. He strongly believed that management was not a personal talent but a skill like any other and therefore it could be taught or learned. At the time it was generally believed that managers were born! Fayol_s observation on principles of general management first appeared in 1916. He found out that the activities of an industrial undertaking fall into six groups.

i. Technical (Production)

ii. Commercial (Buying, selling, exchange)
iii. Financial (Search for use of capital)
iv. Security (Protection of employees property)
v. Accounting (Record, stocks of cost, profits, liabilities etc)
vi. Managerial

Fayol's main interest was on the last activity. He defined management in terms of five functions:

Planning which means choosing a course of action that will help the organization achieve its goals.
Organizing meaning mobilising resources to put plans into action
Commanding means providing direction to employees and getting them to do their work. Coordination means ensuring harmony in the use of resources
Controlling means monitoring the plans to ensure that they are being followed.

Fayol's model of management remains an approach to management today. Fayol also looked into the qualities that are required by management and concluded that they depended on the level of the person in the enterprise.

These were physical, mental, moral, educational, technical and experience. Fayol also developed fourteen principles of management which he felt should be applied by managers at the operational level. He listed these principles as:

i. Division of labour: Work be divided among workers
ii. Authority and responsibility: Managers need authority to carry out responsibility
iii. Discipline: Workers should respect the rules and regulations of the organization
iv. Unity of Command: An employee would receive commands from only one supervisor.
v. Unity of Direction: One manager should have one plan for each organizational objective.
vi. Individual Subordination: The interests of the organization should come before individual interests.
vii. Remuneration: Pay should be fair and good performance should be rewarded.
viii. Centralization: There would be one point in the organization that exercises overall control.
ix. Scalar Chain: Authority should flow downwards from top to bottom through the chain of command.
x. Order: People and materials should be in the right place at the right time.
xi. Equity: Managers should be fair in dealing with employees.
xii. Stability of tenure: Efficiency can be achieved by a stable labour force.
xiii. Initiative: Employees should be given freedom to act and be innovative.
xiv. Espirit de Corps: In union there is strength, teamwork should be encouraged. Management is universal among all organizations and Fayol argued that those with a general knowledge of the management functions and principles can manage any type of organization. He further advocated that these principles/functions can be learned by anybody who is interested. But qualities such as physical health, mental vigour, moral character, which is essential for management, cannot be learned - one must possess them.

Any individual who possesses such qualities can acquire managerial skills by learning the principles of management through formal training.

**(b) Webers Bureaucracy (1864-1920)**

Weber was a German sociologist who was very sensitive to the abuses of power by people in managerial positions. In order to reduce these abuses of power Weber proposed an organizational system that would be run by rules and regulations commonly known as Bureaucracy. Under Bureaucracy an effective organization had a hierarchical structure based on the formal authority and where people were guided by rational rules and regulations rather than the arbitrary acts by those in management. Weber believed that such rested on the following basic principles:

managers should strive for strict division of labour and each position should be staffed by an expert in that area, there should be a consistent set of rules that all employees must follow in performing their jobs (the rules must be impersonal and rigidly enforced),

there should be a clear chain of command

- everyone should report to one and only one direct superior
- communication should always follow this chain and never bypass individuals,

business should be conducted in an impersonal way (managers must maintain an appropriate social distance from their subordinates and not play favourites,
Advancement within the organization should be based on technical expertise and performance rather than seniority or favouritism,

Legal authority and power—authority and power rest in the institution of office. The power an individual holds is legitimised in the office and does not personally belong to him. An Evaluation of the Classical Organization Theories (also known as Classical Administrative Theories)

The classical administrative theories of Fayol and Weber have had a lot of impact on management even today. Many current textbooks in management are organized around Fayol's theoretical framework. Fayol's main contribution included the concepts of the Universality and transferability of managerial skills. Even today it is widely accepted that management skills apply to all types of group activity. The concept that certain identifiable principles underlie effective managerial behaviour and that these principles can be taught also continues to have validity today. Another contribution of these theories is that today many complex organizations are managed by the bureaucratic rules proposed by Weber. These theories however have certain limitations

First these theories assumed that all organizations can be managed by the same set of rules and regulations. They failed to appreciate the difference between various organizations for example you cannot run a government department on the same rules used in a social organization like a club or a private company.
Secondly, the classical approach can be effective under a stable environment, but with frequent changes (rampant today) it proves ineffective as conditions require modifications in management principles and bureaucratic rules. Following outdated rules and principles can be counterproductive.

Third the classical theories undervalued the human element in organizations. It saw people as passive and capable of reacting only to organizational rules and economic incentives. It ignored such qualities as attitudes, emotions, creativity and initiative. It failed to accommodate the fact that people are capable of going against rules. In a bid to cover these inadequacies in the classical theories the human relations movement and the behavioural science approaches were developed.

## THE BEHAVIOURAL SCHOOL OF MANAGEMENT THEORY

Although most of the early theories ignored or neglected the human element in the workplace a few individuals dwelt on the basic framework of the classical school and came up with more people oriented theories. Notable among these were Mary Parker Follet and Chester Barnard, Hugo Munsterberg and Elton Mayo.

### (a) Mary Parker Follet (1868-1933)

Follet recognised the potential importance of the individual but advocated that no one could become a whole person except as a member of a group. She believed that the artificial distinction between managers as order givers and subordinates as order takers obscured the natural relationship that should have existed between them as members of one group.

She strongly felt that for management and labour to become part of one group the traditional views on workers would have to be abandoned, for instance leadership should not come from the power of formal authority (as traditionally believed) but from the persons with greater knowledge and expertise.

### (b) Chester L Bernard (1886-1961)

Bernard used his extensive knowledge in sociology and philosophy to develop certain theories on organizational behaviour. He for instance said that people come together in formal organizations to achieve things they cannot achieve working alone. As they pursue the goals of the organization they must also satisfy their individual needs. He strongly believed that for an organization to function effectively, a balance must be maintained between the organizational goal and the goals of the individuals in the organization.

### (c) Hugo Munsterberg (1863-1916) and the birth of Industrial Psychology

He is remembered as the father of industrial psychology and published his book "Psychology and Industrial Efficiency (1913). He suggested that productivity could be increased through the following ways:

Finding the best possible person i.e. the worker whose mental ability is the best for the job.

Finding the best possible work i.e. the ideal psychological conditions for maximising productivity and

Through use of psychological influence i.e. the best possible effect to motivate employees.

Like Taylor he advocated for more science in management but being a psychologist he argued that the proven techniques of psychology for measuring individual differences be applied to industrial problems. He developed psychological tests for fitting the right person to the right job thus implementing Taylor's idea to select workers scientifically. Generally Munsterberg sought to find the best person for a job and studied and designed the job itself to match it more closely with human characteristics and abilities. He suggested that this would reduce the almost limitless waste of human resources and would return large economic benefits to both the firm and the employees. Like Taylor he was also interested in the mutuality of interests between managers and employees and argued that his approach was even more strongly aimed at workers and through it he hoped to reduce the working time, increase their wages and raise their standard of living.

**(d) Elton Mayo (1880-1949) and the human relations movement**

Elton Mayo is referred to as the father of human relations movement. This trend that started in 1920 up to 1950 concerned itself with the treatment of psychological satisfaction as the primary management concern. Human relations is used to describe how managers interact with subordinates when the management of people leads to better performance then there is good human relations. When morale and efficiency deteriorate human relations in the organization is 'bad'.
Managers need to know why employees behave the way they do and what psychological factors motivate them if they are to create good human relations. The main catalyst of the human relations debate was the Hawthorne studies, conducted by Fayol and his friends.

**Hawthorne Experiments:**

These were conducted by Elton Mayo and his associates from Harvard University. The studies were at the Hawthorne Plant of Western Electric Company (US) from 1927 to 1932.

Earlier on other researchers had conducted experiments using two groups - an experiment group which was subjected to changes in the lighting (illumination) and a control group whose lighting was kept constant. When lighting conditions were improved productivity went up, but even when lighting conditions were worsened productivity also went up. This was puzzling but what complicated the problem further was that the control groups productivity increased as lighting was altered for the experiment group.

In an attempt to solve this puzzle Mayo triggered off the human relations movement. In a new experiment Mayo used two groups of 6 women each. For the experiment group such variables as salaries were changed, rest periods were added, work hours were shortened and groups were allowed to suggest the changes they wanted made. Again output went up for both groups.

Mayo ruled out financial resources as the causes since the control groups salary remained the same. They concluded that a complex emotional chain reaction had triggered the increase in productivity. They felt that because the members of the groups had been singled out for special attention, they developed a group pride that motivated them to improve productivity. The experiment made Mayo conclude that special attention (like being selected in a study exposing one to constant contact with top management) caused people to increase their efforts - a phenomenon that has come to be referred to as the Hawthorne Effect.

Mayo further tried to establish why such special attention should cause people to increase their efforts. He found out that the special environment of employees informal work groups have great influence on productivity. Mayo concluded that workers are human beings who are affected more by social interactions. He felt that the concept of "social man" had to replace the old concept of "rational man" advocated by the classical theorists.

Contributions and Limitations of the Human Relations Approach

Mayo's human relations had major impacts (contributions) on management thinking and practices.

- It focused on human factors as an important managerial variable which resulted in more and more researches paying attention to the human element in organizations.
- It led to improvements in employee welfare in many organizations
- Labour gained more economic and political power acting through trade unions.
- Mayo also highlighted the importance of a manager's style and therefore revolutionalized management training, and managers started thinking more in terms of group processes and group rewards to supplement individual rewards. The human relations movement also had three major limitations:
- In viewing human factors as the single most important organizational variable it committed the mistakes of earlier theories, searching for one best way of managing. The scientific management method had tried to search for the one best way of designing jobs, while the administrative theory had searched for the one best way to arrange organizational activities.
- The human relations theorist also viewed workers as 'social beings' motivated by social rewards, but this was also too simplistic a view of human beings who are complex and motivated by a variety of factors.
- They also assumed that satisfied workers would be productive and this made firms introduce fringe benefits e.g. vacations but this was not always true - benefits did not always result in increased productivity. This movement however paved the way for the development of behavioural science of the 1960s and 1970s.

The behavioural scientists like Argyris, Maslow and McGregor believed that the concept of "self actualizing man explained human behaviour more accurately (the behavioural scientist theories will be covered later under employee motivation.

## THE QUANTITATIVE SCHOOL OF MANAGEMENT

This is the third school of management thought and it focuses on quantitative or measurement techniques and concepts that are relevant to management. It mainly originated with the British Military in the World War II. Britain which was faced by many problems of warfare sought to find better ways to deal with issues like troop movement, arms production etc. This school has three branches:

Management Science
Operations Management and,
Management Information Systems

### Management Science

Management Science mainly concerns itself with the development of mathematical and statistical tools and techniques that can be used to improve efficiency. Breakthroughs in computers and other forms of electronic information processing have enhanced the application of management science.

### Operations management

Is somewhat like management science but it mainly focuses on application. Main concern is the processes and systems that an organization uses to transform inputs into outputs. Therefore it will deal with decisions like plant location, plant layout and inventory control and distribution of finished products.

### Management Information System (MIS)

MIS is a system created specifically to process, store and provide information for managers in order to improve decision making.

### Evaluation of the Quantitative School

The techniques of management science are extensively used to solve problems in most organizations today.

The tools and techniques can greatly enhance a manager's decision-making, planning and control and improve their organization efficiency and effectiveness. However many of the key variables in organizations e.g. people, office politics, feelings, attitudes, motivation, personalities leadership cannot be quantifiable. Yet these factors are critical in decision-making.

## CONTEMPORARY MANAGEMENT THEORIES

In the recent past several new perspectives about management have emerged. These are still evolving and have not attained the status of schools of thought but they still provide useful insights into the understanding of management.

Among these we have the contingency theory, systems theory, management theory Z, management excellence and process theory.

### a) Contingency Theory

This theory argues that appropriate management actions depend on the situation prevailing at the time. According to this theory there are no ready made universal answers to management rather the decision that a manager will make will depend on the situation. Every situation that a manager will confront will be somewhat different and therefore will require different reactions.

### b) Systems Theory

This theory tries to look at how organizations function and operate as a system that is a subsystem of a much bigger system. It is the process by which an organization receives feedback. A system is an interrelated set of elements that function as a whole. It has four basic parts; it receives inputs, from the environment, it transforms the resources into outputs (finished goods and finally receives feedback from the environment).

The feedback from the environment serves as a source of information about the performance of the firm and hence it serves as a good basis for later decision making. (This notion of a system being only part of a greater system is very useful to management and stands out as the greatest contribution of the systems theory). The other useful concepts of the systems theory are the concepts of Synergy Entropy and Equifinality. Synergy suggests that two people or units can achieve more working together than working individually. Entropy is what happens when firms adopt a closed-system approach - they fall and die. Equifinality is the idea that two or more strategies (paths) may lead to the same achievements (place).

### c) Theory Z

The theory Z of management is a very new approach to management. It has not yet withstood the test of time and it is not certain therefore to evolve into a fully developed theory of management.

Theory Z was popularized in the early 80's by Willian Ouchi. During this time a great deal of attention was being given to the success of Japanese Companies in America and in world trade and differences between American and Japanese management practices. Ouchi studied succeeding American firms in order to determine why and how they continued to be successful when other companies were losing ground. He found that most American companies followed a set of business practices which he called type A (A standing for American). The typical Japanese company followed a different set of practices called J (J standing for Japanese). But the highly successful American firms followed neither type A or type J management. Rather they used a modified approach that capitalised on the various strengths of type J model and also used type A method when cultural factors dictated. Ouchi attributed the success of these companies to their use of the modified approach. He concluded that a flexible management position incorporating the strengths of both American and Japanese models would lead to successful competition. This approach he called the Theory Z of management.

Some Aspects of Japanese Management

The practice of management always reflects the culture of a society. Japanese management has certain aspects which are predominantly borrowed from their culture.
Japanese managers place much more emphasis on generating harmony at all levels of the firm.
Japanese managers more than those from other cultures to a great extent tend to place group goals ahead of individual goals. Unlike American firms they do not overemphasize the big positions in the company
Japanese management is characterised more by consultation than by direct order. Even low level officers help in formulating policies. (This however, results in slow decision making).
Japanese managers rarely reject any contributions by subordinates flatly because to do so is impolite and a threat to their culture of harmony.
The Japanese worker usually signs for life with a company. Labour turnover is very low in Japanese firms. Companies try hard to keep their workers happy.

**c) Management Excellence**

This theory was advocated by Thomas Peters and Robert Waterman in the mid 80's. After studying various American films they concluded that successful managers were characterised by eight attributes:

- a bias for action
- staying close to the customer
- autonomy and entrepreneurship
- productivity through people
- hands on-value driven management
- Remaining with the business: stick to the knitting.
- simple form and lean staff
- climate of dedication to the central values

Because these theories have not been tested and are still evolving, their validity cannot be ascertained but they still do have useful information for managers of today's dynamic and complex organizations.

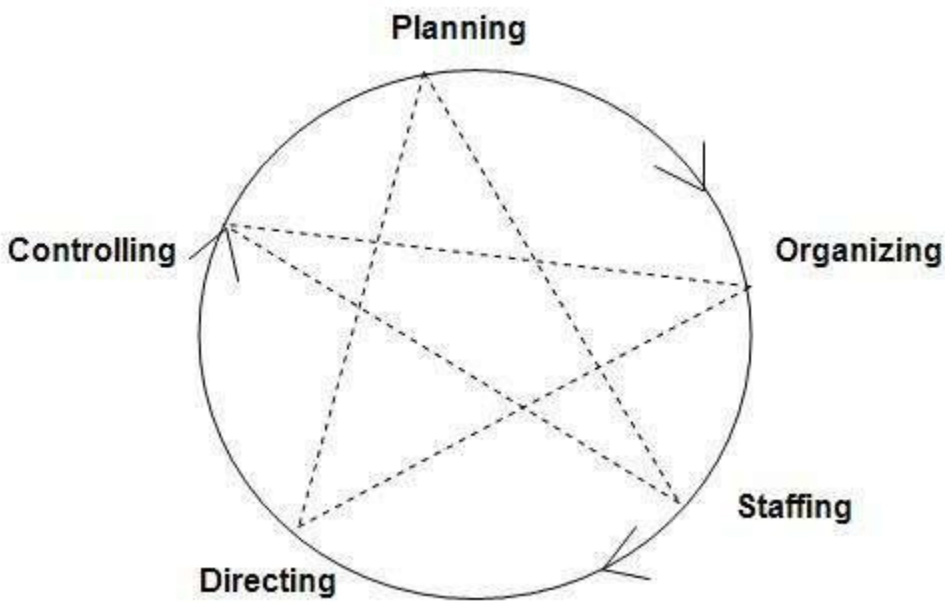
# CHAPTER THREE

# OVERVIEW OF MANAGEMENT FUNCTION

Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfillment of given purposes. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manger irrespective of his level or status.

Different experts have classified functions of management. According to *George & Jerry*, ―There are four fundamental functions of management i.e. planning, organizing, actuating and controlling‖. According to Henry Fayol, ―To manage is to forecast and plan, to organize, to command, & to control‖. Whereas Luther Gullick has given a keyword 'POSDCORB' where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O'DONNEL i.e. Planning, Organizing, Staffing, Direct ing and Controlling.

For theoretical purposes, it may be convenient to separate the function of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Eachfunction blends into the other & each affects the performance of others.



1. **Planning**

It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, ―Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be‖. A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

2. **Organizing**

It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, ―To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel‗s‖. To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

- Identification of activities.
- Classification of grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relationships.

3. **Staffing**

It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behavior etc. The main purpose o staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Kootz & O‗Donell, ―Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed un the structure‖. Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
- Recruitment, Selection & Placement.
- Training & Development.
- Remuneration.
- Performance Appraisal.
- Promotions & Transfer.

4. **Directing**

It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

Supervision- implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

Motivation- means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

Leadership- may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

Communications- is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

5. **Controlling**

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to *Theo Haimann*, ―Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation‖. According to Koontz & O‘Donell ―Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished‖.

Therefore controlling has following steps:

a. Establishment of standard performance.
b. Measurement of actual performance.
c. Comparison of actual performance with the standards and finding out deviation if any.
d. Corrective action.

# PLANNING

**Planning** means looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

It is rightly said ―**Well plan is half done**‖. Therefore planning takes into consideration available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

According to Urwick, ―Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses‖. Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.

According to Koontz & O'Donell, ―Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur‖.

## Steps in Planning Function

*Planning function of management* involves following steps:-

1. **Establishment of objectives**
    a. Planning requires a systematic approach.
    b. Planning starts with the setting of goals and objectives to be achieved.
    c. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
    d. Moreover objectives focus the attention of managers on the end results to be achieved.
    e. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
    f. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
    g. Such goals should be specified in qualitative terms.
    h. Hence objectives should be practical, acceptable, workable and achievable.
2. **Establishment of Planning Premises**
    a. Planning premises are the assumptions about the lively shape of events in future.
    b. They serve as a basis of planning.
    c. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
    d. It is to find out what obstacles are there in the way of business during the course of operations.

e. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
f. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
g. Internal premises are controllable whereas external are non- controllable.

3. **Choice of alternative course of action**
    a. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
    b. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.
    c. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
    d. After objective and scientific evaluation, the best alternative is chosen.
    e. The planners should take help of various quantitative techniques to judge the stability of an alternative.
4. **Formulation of derivative plans**
    a. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
    b. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.
    c. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
    d. Derivative plans indicate time schedule and sequence of accomplishing various tasks.
5. **Securing Co-operation**
    a. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
    b. The purposes behind taking them into confidence are :-
        i. Subordinates may feel motivated since they are involved in decision making process.
        ii. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
        iii. Also the employees will be more interested in the execution of these plans.
6. **Follow up/Appraisal of plans**
    a. After choosing a particular course of action, it is put into action.
    b. After the selected plan is implemented, it is important to appraise its effectiveness.
    c. This is done on the basis of feedback or information received from departments or persons concerned.
    d. This enables the management to correct deviations or modify the plan.
    e. This step establishes a link between planning and controlling function.
    f. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

## Characteristics of Planning

**Planning is goal-oriented.**

a. Planning is made to achieve desired objective of business.

b. The goals established should general acceptance otherwise individual efforts & energies will go misguided and misdirected.
c. Planning identifies the action that would lead to desired goals quickly & economically.
d. It provides sense of direction to various activities.

**Planning is looking ahead.**

a. Planning is done for future.
b. It requires peeping in future, analyzing it and predicting it.
c. Thus planning is based on forecasting.
d. A plan is a synthesis of forecast.
e. It is a mental predisposition for things to happen in future.

**Planning is an intellectual process.**

a. Planning is a mental exercise involving creative thinking, sound judgment and imagination.
b. It is not a mere guesswork but a rotational thinking.
c. A manager can prepare sound plans only if he has sound judgment, foresight and imagination.
d. Planning is always based on goals, facts and considered estimates.

**Planning involves choice & decision making.**

a. Planning essentially involves choice among various alternatives.
b. Therefore, if there is only one possible course of action, there is no need planning because there is no choice.
c. Thus, decision making is an integral part of planning.
d. A manager is surrounded by no. of alternatives. He has to pick the best depending upon requirements & resources of the enterprises.

**Planning is the primary function of management / Primacy of Planning.**

a. Planning lays foundation for other functions of management.
b. It serves as a guide for organizing, staffing, directing and controlling.
c. All the functions of management are performed within the framework of plans laid out.
d. Therefore planning is the basic or fundamental function of management.

**Planning is a Continuous Process.**

a. Planning is a never ending function due to the dynamic business environment.
b. Plans are also prepared for specific period f time and at the end of that period, plans are subjected to revaluation and review in the light of new requirements and changing conditions.
c. Planning never comes into end till the enterprise exists issues, problems may keep cropping up and they have to be tackled by planning effectively.

**Planning is all Pervasive.**

a. It is required at all levels of management and in all departments of enterprise.
b. Of course, the scope of planning may differ from one level to another.

c. The top level may be more concerned about planning the organization as a whole whereas the middle level may be more specific in departmental plans and the lower level plans implementation of the same.

**Planning is designed for efficiency.**

a. Planning leads to accomplishment of objectives at the minimum possible cost.
b. It avoids wastage of resources and ensures adequate and optimum utilization of resources.
c. A plan is worthless or useless if it does not value the cost incurred on it.
d. Therefore planning must lead to saving of time, effort and money.
e. Planning leads to proper utilization of men, money, materials, methods and machines.

**Planning is Flexible.**

a. Planning is done for the future.
b. Since future is unpredictable, planning must provide enough room to cope with the changes in customer‘s demand, competition, govt. policies etc.
c. Under changed circumstances, the original plan of action must be revised and updated to make it more practical

## Advantages of Planning

**Planning facilitates management by objectives.**

a. Planning begins with determination of objectives.
b. It highlights the purposes for which various activities are to be undertaken.
c. In fact, it makes objectives more clear and specific.
d. Planning helps in focusing the attention of employees on the objectives or goals of enterprise.
e. Without planning an organization has no guide.
f. Planning compels manager to prepare a Blue-print of the courses of action to be followed for accomplishment of objectives.
g. Therefore, planning brings order and rationality into the organization.

**Planning minimizes uncertainties.**

a. Business is full of uncertainties.
b. There are risks of various types due to uncertainties.
c. Planning helps in reducing uncertainties of future as it involves anticipation of future events.
d. Although future cannot be predicted with cent percent accuracy but planning helps management to anticipate future and prepare for risks by necessary provisions to meet unexpected turn of events.

e. Therefore with the help of planning, uncertainties can be forecasted which helps in preparing standbys as a result, uncertainties are minimized to a great extent.

**Planning facilitates co-ordination.**

a. Planning revolves around organizational goals.
b. All activities are directed towards common goals.
c. There is an integrated effort throughout the enterprise in various departments and groups.
d. It avoids duplication of efforts. In other words, it leads to better co-ordination.
e. It helps in finding out problems of work performance and aims at rectifying the same.

**Planning improves employee's moral.**

a. Planning creates an atmosphere of order and discipline in organization.
b. Employees know in advance what is expected of them and therefore conformity can be achieved easily.
c. This encourages employees to show their best and also earn reward for the same.
d. Planning creates a healthy attitude towards work environment which helps in boosting employees moral and efficiency.

**Planning helps in achieving economies.**

a. Effective planning secures economy since it leads to orderly allocation ofresources to various operations.
b. It also facilitates optimum utilization of resources which brings economy in operations.
c. It also avoids wastage of resources by selecting most appropriate use that will contribute to the objective of enterprise. For example, raw materials can be purchased in bulk and transportation cost can be minimized. At the same time it ensures regular supply for the production department, that is, overall efficiency.

**Planning facilitates controlling.**

a. Planning facilitates existence of certain planned goals and standard of performance.
b. It provides basis of controlling.
c. We cannot think of an effective system of controlling without existence of well thought out plans.
d. Planning provides pre-determined goals against which actual performance is compared.
e. In fact, planning and controlling are the two sides of a same coin. If planning is root, controlling is the fruit.

**Planning provides competitive edge.**

a. Planning provides competitive edge to the enterprise over the others which do not have effective planning. This is because of the fact that planning may involve changing in work methods, quality, quantity designs, extension of work, redefining of goals, etc.
b. With the help of forecasting not only the enterprise secures its future but at the same time it is able to estimate the future motives of it‘s competitor which helps in facing future challenges.
c. Therefore, planning leads to best utilization of possible resources, improves quality of production and thus the competitive strength of the enterprise is improved.

**Planning encourages innovations.**

a. In the process of planning, managers have the opportunities of suggesting ways and means of improving performance.
b. Planning is basically a decision making function which involves creative thinking and imagination that ultimately leads to innovation of methods and operations for growth and prosperity of the enterprise.

## Disadvantages of Planning

### Internal Limitations

There are several limitations of planning. Some of them are inherit in the process of planning like rigidity and other arise due to shortcoming of the techniques of planning and in the planners themselves.

1. **Rigidity**
   a. Planning has tendency to make administration inflexible.
   b. Planning implies prior determination of policies, procedures and programmes and a strict adherence to them in all circumstances.
   c. There is no scope for individual freedom.
   d. The development of employees is highly doubted because of which management might have faced lot of difficulties in future.
   e. Planning therefore introduces inelasticity and discourages individual initiative and experimentation.
2. **Misdirected Planning**
   a. Planning may be used to serve individual interests rather than the interest of the enterprise.
   b. Attempts can be made to influence setting of objectives, formulation of plans and programmes to suit one‘s own requirement rather than that of whole organization.
   c. Machinery of planning can never be freed of bias. Every planner has his own likes, dislikes, preferences, attitudes and interests which is reflected in planning.
3. **Time consuming**
   a. Planning is a time consuming process because it involves collection of information, it‘s analysis and interpretation thereof. This entire process takes a lot of time specially where there are a number of alternatives available.
   b. Therefore planning is not suitable during emergency or crisis when quick decisions are required.
4. **Probability in planning**
   a. Planning is based on forecasts which are mere estimates about future.
   b. These estimates may prove to be inexact due to the uncertainty of future.
   c. Any change in the anticipated situation may render plans ineffective.
   d. Plans do not always reflect real situations inspite of the sophisticated techniques of forecasting because future is unpredictable.
   e. Thus, excessive reliance on plans may prove to be fatal.

5. **False sense of security**
    a. Elaborate planning may create a false sense of security to the effect that everything is taken for granted.
    b. Managers assume that as long as they work as per plans, it is satisfactory.
    c. Therefore they fail to take up timely actions and an opportunity is lost.
    d. Employees are more concerned about fulfillment of plan performance rather than any kind of change.
6. **Expensive**
    a. Collection, analysis and evaluation of different information, facts and alternatives involves a lot of expense in terms of time, effort and money
    b. According to Koontz and O'Donell, ' Expenses on planning should never exceed the estimated benefits from planning. '

### External Limitations of Planning

1. Political Climate- Change of government from Congress to some other political party, etc.
2. Labour Union- Strikes, lockouts, agitations.
3. Technological changes- Modern techniques and equipments, computerization.
4. Policies of competitors- E.g. Policies of Coca Cola and Pepsi.
5. Natural Calamities- Earthquakes and floods.
6. Changes in demand and prices- Change in fashion, change in tastes, change in income level, demand falls, price falls, etc.

## ORGANIZING

**Organizing** is the function of management which follows planning. It is a function in which the synchronization and combination of human, physical and financial resources takes place. All the three resources are important to get results. Therefore, organizational function helps in achievement of results which in fact is important for the functioning of a concern. According to *Chester Barnard*, **—**Organizing is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organize in order to get results.

A manager performs organizing function with the help of following steps:-

1. **Identification of activities -** All the activities which have to be performed in a concern have to be identified first. For example, preparation of accounts, making sales, record keeping, quality control, inventory control, etc. All these activities have to be grouped and classified into units.
2. **Departmentally organizing the activities -** In this step, the manager tries to combine and group similar and related activities into units or departments. This organization of dividing the whole concern into independent units and departments is called departmentation.
3. **Classifying the authority -** Once the departments are made, the manager likes to classify the powers and its extent to the managers. This activity of giving a rank in order to the managerial positions is called hierarchy. The top management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen. The clarification of authority helps in bringing

efficiency in the running of a concern. This helps in achieving efficiency in the running of a concern. This helps in avoiding wastage of time, money, effort, in avoidance of duplication or overlapping of efforts and this helps in bringing smoothness in a concern‘s working.

4. **Co-ordination between authority and responsibility -** Relationships are established among various groups to enable smooth interaction toward the achievment of the organizational goal. Each individual is made aware of his authority and he/she knows whom they have to take orders from and to whom they are accountable and to whom they have to report. A clear organizational structure is drawn and all the employees are made aware of it.

## Importance of Organizing Function

- Specialization **-** Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
- Well **defined jobs -** Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
- Clarifies **authority -** Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.
- Co**-ordination -** Organization is a means of creating co-ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensure mutual co-operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.

  Authority responsibility relationships can be fruitful only when there is a formal relationship between the two. For smooth running of an organization, the co-ordination between authority- responsibility is very important. There should be co-ordination between different relationships. Clarity should be made for having an ultimate responsibility attached to every authority. There is a saying, ―Authority without responsibility leads to ineffective behaviour and responsibility without authority makes person ineffective.‖ Therefore, co-ordination of authority-responsibility is very important.
- **Effective administration -** The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.
- **Growth and diversification -** A company‘s growth is totally dependant on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization. In addition to this, a company can diversify if its

potential grow. This is possible only when the organization structure is well- defined. This is possible through a set of formal structure.

- **Sense of security -** Organizational structure clarifies the job positions. The roles assigned to every manager is clear. Co-ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job- satisfaction.
- **Scope for new changes -** Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.

## Principles of Organizing

The organizing process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organize in an effective manner, the following principles of organization can be used by a manager.

1. **Principle of Specialization**

   According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialization can be achieved which results in effective organization.

2. **Principle of Functional Definition**

   According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively. For example, the primary functions of production, marketing and finance and the authority responsibility relationships in these departments should be clearly defined to every person attached to that department. Clarification in the authority-responsibility relationship helps in efficient organization.

3. **Principles of Span of Control/Supervision**

   According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either from a wide or narrow span. There are two types of span of control:-

a. **Wide span of control-** It is one in which a manager can supervise and control effectively a large group of persons at one time. The features of this span are:-
   i. Less overhead cost of supervision
   ii. Prompt response from the employees
   iii. Better communication
   iv. Better supervision
   v. Better co-ordination
   vi. Suitable for repetitive jobs

   According to this span, one manager can effectively and efficiently handle a large number of subordinates at one time.

b. **Narrow span of control-** According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervises and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time. The features are:-
   i. Work which requires tight control and supervision, for example, handicrafts, ivory work, etc. which requires craftsmanship, there narrow span is more helpful.
   ii. Co-ordination is difficult to be achieved.
   iii. Communication gaps can come.
   iv. Messages can be distorted.
   v. Specialization work can be achieved.

**Factors influencing Span of Control**

i. **Managerial abilities-** In the concerns where managers are capable, qualified and experienced, wide span of control is always helpful.
ii. **Competence of subordinates-** Where the subordinates are capable and competent and their understanding levels are proper, the subordinates tend to very frequently visit the superiors for solving their problems. In such cases, the manager can handle large number of employees. Hence wide span is suitable.
iii. **Nature of work-** If the work is of repetitive nature, wide span of supervision is more helpful. On the other hand, if work requires mental skill or craftsmanship, tight control and supervision is required in which narrow span is more helpful.
iv. **Delegation of authority-** When the work is delegated to lower levels in an efficient and proper way, confusions are less and congeniality of the environment can be maintained. In such cases, wide span of control is suitable and the supervisors can manage and control large number of sub-ordinates at one time.
v. **Degree of decentralization-** Decentralization is done in order to achieve specialization in which authority is shared by many people and managers at different levels. In such cases, a tall structure is helpful. There are certain concerns where decentralization is done in very effective way which results in direct and personal communication between superiors and sub- ordinates and there the superiors can manage large number of subordinates very easily. In such cases, wide span again helps.

4. **Principle of Scalar Chain**

Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimized, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organization which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organization.

**Principle of Unity of Command**

It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organization.

**<u>Authority Flows from Top to Bottom</u>**

Managing Director

↓

Marketing Manager

↓

Sales/ Media Manager

↓

Salesmen

According to the above diagram, the Managing Director has got the highest level of authority. This authority is shared by the Marketing Manager who shares his authority with the Sales Manager. From this chain of hierarchy, the official chain of communication becomes clear which is helpful in achievement of results and which provides stability to a concern. This scalar chain of command always flow from top to bottom and it defines the authority positions of different managers at different levels.

## Classification of Organizations

Organizations are basically clasified on the basis of relationships. There are two types of organizations formed on the basis of relationships in an organization

1. **Formal Organization -** This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organization is an arbitrary set up in which each person is responsible for his performance. Formal organization has a formal set up to achieve pre- determined goals.
2. **Informal Organization -** It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organizations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organizations. There is no conscious effort made to have informal organization. It emerges from the formal organization and it is not based on any rules and regulations as in case of formal organization.

### Relationship between Formal and Informal Organizations

For a concerns working both formal and informal organization are important. Formal organization originates from the set organizational structure and informal organization originates from formal organization. For an efficient organization, both formal and informal organizations are required. They are the two phase of a same concern. Formal organization can work independently. But informal organization depends totally upon the formal organization. Formal and informal organization helps in bringing efficient working organization and smoothness in a concern. Within the formal organization, the members undertake the assigned duties in co-operation with each other. They interact and communicate amongst themselves. Therefore, both formal and informal organizations are important. When several people work together for achievement of organizational goals, social tie ups tends to built and therefore informal organization helps to secure co-operation by which goals can be achieved smooth. Therefore, we can say that informal organization emerges from formal organization.

## Line Organization

**Line organization** is the oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization. In this type of organization, the line of command flows on an even basis without any gaps in communication and co-ordination taking place.

#### Features of Line Organization

1. It is the most simplest form of organization.
2. Line of authority flows from top to bottom.
3. Specialized and supportive services do not take place in these organization.

4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
5. This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.
6.

**Merits of Line Organization**

1. **Simplest-** It is the most simple and oldest method of administration.
2. **Unity of Command-** In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. **Better discipline-** The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. **Fixed responsibility-** In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. **Flexibility-** There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. **Prompt decision-** Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

**Demerits of Line Organization**

1. **Over reliance-** The line executive's decisions are implemented to the bottom. This results in over-relying on the line officials.
2. **Lack of specialization-** A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.
3. **Inadequate communication-** The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.
4. **Lack of Co-ordination-** Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co-ordination is less.
5. **Authority leadership-** The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

## Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives. Personal Secretary to the Managing Director is a staff official.

**MANAGING DIRECTOR**

| | | |
|---|---|---|
| ↓ | ↓ | ↓ |
| Production Manager | Marketing Manager | Finance Manager |
| ↓ | ↓ | ↓ |
| Plant Supervisor | Market Supervisor | Chief Assisstant |
| ↓ | ↓ | ↓ |
| Foreman | Salesman | Accountant |

**Features of Line and Staff Organization**

1. There are two types of staff :
    a. Staff Assistants- P.A. to Managing Director, Secretary to Marketing Manager.
    b. Staff Supervisor- Operation Control Manager, Quality Controller, PRO
2. Line and Staff Organization is a compromise of line organization. It is more complex than line concern.
3. Division of work and specialization takes place in line and staff organization.
4. The whole organization is divided into different functional areas to which staff specialists are attached.
5. Efficiency can be achieved through the features of specialization.
6. There are two lines of authority which flow at one time in a concern :
    a. Line Authority
    b. Staff Authority
7. Power of command remains with the line executive and staff serves only as counselors.

**Merits of Line and Staff Organization**

1. **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
2. **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
3. **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co-ordination in work as every official is concentrating in their own area.

5. **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
6. **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
7. **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co-ordination. This relationship automatically ends up the line official to take better and balanced decision.
8. **Unity of action-** Unity of action is a result of unified control. Control and its effectivity take place when co-ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

**Demerits of Line and Staff Organization**

1. **Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
2. **Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
3. **Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co-ordination which hampers a concern‘s working.
4. **Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
5. **Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
6. **Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results

## Functional Organization

**Functional organization** has been divided to put the specialists in the top position throughout the enterprise. This is an organization in which we can define as a system in which functional department are created to deal with the problems of business at various levels. Functional authority remains confined to functional guidance to different departments. This helps in maintaining quality and uniformity of performance of different functions throughout the enterprise.

The concept of Functional organization was suggested by F.W. Taylor who recommended the appointment of specialists at important positions. For example, the functional head and Marketing Director directs the subordinates throughout the organization in his particular area. This means that subordinates receives orders from several specialists, managers working above them.

**Features of Functional Organization**

1. The entire organizational activities are divided into specific functions such as operations, finance, marketing and personal relations.
2. Complex form of administrative organization compared to the other two.
3. Three authorities exist- Line, staff and function.
4. Each functional area is put under the charge of functional specialists and he has got the authority to give all decisions regarding the function whenever the function is performed throughout the enterprise.
5. Principle of unity of command does not apply to such organization as it is present in line organization.

**Merits of Functional Organization**

1. **Specialization-** Better division of labour takes place which results in specialization of function and it‘s consequent benefit.
2. **Effective Control-** Management control is simplified as the mental functions are separated from manual functions. Checks and balances keep the authority within certain limits. Specialists may be asked to judge the performance of various sections.
3. **Efficiency-** Greater efficiency is achieved because of every function performing a limited number of functions.
4. **Economy-** Specialization compiled with standardization facilitates maximum production and economical costs.
5. **Expansion-** Expert knowledge of functional manager facilitates better control and supervision.

**Demerits of Functional Organization**

1. **Confusion-** The functional system is quite complicated to put into operation, especially when it is carried out at low levels. Therefore, co-ordination becomes difficult.
2. **Lack of Co-ordination-** Disciplinary control becomes weak as a worker is commanded not by one person but a large number of people. Thus, there is no unity of command.
3. **Difficulty in fixing responsibility-** Because of multiple authority, it is difficult to fix responsibility.
4. **Conflicts-** There may be conflicts among the supervisory staff of equal ranks. They may not agree on certain issues.
5. **Costly-** Maintainance of specialist‘s staff of the highest order is expensive for a concern.

## Delegation of Authority - Meaning, Importance and its Principles

A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

**Elements of Delegation**

1. **Authority -** in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as

to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn‘t misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn‘t imply escaping from accountability. Accountability still rest with the person having the utmost authority.

2. **Responsibility -** is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn‘t accomplish tasks assigned as expected, then also he is answerable for that.
3. **Accountability -** means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if ‘A‘ is given a task with sufficient authority, and ‘A‘ delegates this task to B and asks him to ensure that task is done well, responsibility rest with ‘B‘, but accountability still rest with ‘A‘. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can‘t be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps :-

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

**Delegation of authority** is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important.

Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager,i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee‘s role which means his responsibility and accountability is attached with the authority over to here.

**Relationship between Authority and Responsibility**

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates,in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

**Differences between Authority and Responsibility**

| Authority | Responsibility |
|---|---|
| It is the legal right of a person or a superior to command his subordinates. | It is the obligation of subordinate to perform the work assigned to him. |
| Authority is attached to the position of a superior in concern. | Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him. |
| Authority can be delegated by a superior to a subordinate | Responsibility cannot be shifted and is absolute |
| It flows from top to bottom. | It flows from bottom to top. |

## Importance of Delegation

Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates. The importance of delegation can be justified by -

1. Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit. This effectivity helps a manager to prove his ability and skills in the best manner.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands. An organization functions as the authority flows from top level to bottom. This in fact shows that through delegation, the superior-subordinate relationship become meaningful. The flow of authority is from top to bottom which is a way of achieving results.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. Through delegating powers, the subordinates get a feeling of importance. They get motivated to work and this motivation provides appropriate results to a concern. Job satisfaction is an important criterion to bring stability and soundness in the relationship between superior and subordinates. Delegation also helps in breaking the monotony of the subordinates so that they can be more creative and efficient. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. Since the manager get enough time through delegation to concentrate on important issues, their decision-making gets strong and in a way they can flourish the talents which are required in a manager. Through granting powers and getting the work done, helps the manager to attain communication skills, supervision and guidance, effective motivation and the leadership traits are flourished. Therefore it is only through delegation, a manager can be tested on his traits.
5. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern‘s working. With effective results, a concern can think of creating more departments and divisions flow working. This will require creation of more managers which can be fulfilled by shifting the experienced, skilled managers to these positions. This helps in both virtual as well as horizontal growth which is very important for a concern‘s stability.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiples himself and is able to bring stability, ability and soundness to a concern.

## Principles of Delegation

There are a few guidelines in form of principles which can be a help to the manager to process of delegation. The **principles of delegation** are as follows: -

1. **Principle of result excepted-** suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly. For example, a marketing manager explains the salesmen regarding the units of sale to take place in a particular day, say ten units a day have to be the target sales. While a marketing manger provides these guidelines of sales, mentioning the target sales is very important so that the salesman can perform his duty efficiently with a clear set of mind.
2. **Principle of Parity of Authority and Responsibility-** According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand.

   According to this principle, if a subordinate is given a responsibility to perform a task, then at the same time he should be given enough independence and power to carry out that task effectively. This principle also does not provide excessive authority to the subordinate which at times can be misused by him. The authority should be given in such a way which matches the task given to him. Therefore, there should be no degree of disparity between the two.

3. **Principle of absolute responsibility-** This says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates which means responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers. It does not means that he can escape from his responsibility. He will always remain responsible till the completion of task. Every superior is responsible for the acts of their subordinates and are accountable to their superior therefore the superiors cannot pass the blame to the subordinates even if he has delegated certain powers to subordinates example if the production manager has been given a work and the machine breaks down. If repairmen are not able to get repair work done, production manager will be responsible to CEO if their production is not completed.
4. **Principle of Authority level-** This principle suggests that a manager should exercise his authority within the jurisdiction / framework given. The manager should be forced to consult their superiors with those matters of which the authority is not given that means before a manager takes any important decision, he should make sure that he has the authority to do that on the other hand, subordinate should also not frequently go with regards to their complaints as well as suggestions to their superior if they are not asked to do. This principle emphasizes on the degree of authority and the level upto which it has to be maintained.

### Centralization and Decentralization

**Centralization** is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, ―Centralization‖

is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be :-

1. Reservation of decision making power at top level.
2. Reservation of operating authority with the middle level managers.
3. Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

On the other hand, **Decentralization** is a systematic delegation of authority at all levels of management and in all of the organization. In a decentralization concern, authority in retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

The degree of **centralization and decentralization** will depend upon the amount of authority delegated to the lowest level. According to Allen, ―Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points.

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider is scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. While decentralization is complete only when fullest possible delegation has taken place. For example, the general manager of a company is responsible for receiving the leave application for the whole of the concern. The general manager delegates this work to the personnel manager who is now responsible for receiving the leave applicants. In this situation delegation of authority has taken place. On the other hand, on the request of the personnel manager, if the general manager delegates this power to all the departmental heads at all level, in this situation decentralization has taken place. There is a saying that ―Everything that increasing the role of subordinates is decentralization and that decreases the role is centralization‖. Decentralization is wider in scope and the subordinate‗s responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

**Implications of Decentralization**

1. There is less burden on the Chief Executive as in the case of centralization.
2. In decentralization, the subordinates get a chance to decide and act independently which develops skills and capabilities. This way the organization is able to process reserve of talents in it.
3. In decentralization, diversification and horizontal can be easily implanted.

4. In decentralization, concern diversification of activities can place effectively since there is more scope for creating new departments. Therefore, diversification growth is of a degree.
5. In decentralization structure, operations can be coordinated at divisional level which is not possible in the centralization set up.
6. In the case of decentralization structure, there is greater motivation and morale of the employees since they get more independence to act and decide.
7. In a decentralization structure, co-ordination to some extent is difficult to maintain as there are lot many department divisions and authority is delegated to maximum possible extent, i.e., to the bottom most level delegation reaches. Centralization and decentralization are the categories by which the pattern of authority relationships became clear. The degree of centralization and de-centralization can be affected by many factors like nature of operation, volume of profits, number of departments, size of a concern, etc. The larger the size of a concern, a decentralization set up is suitable in it

## Delegation and Decentralization

| **Basis** | **Delegation** | **Decentralization** |
|---|---|---|
| Meaning | Managers delegate some of their function and authority to their subordinates. | Right to take decisions is shared by top management and other level of management. |
| Scope | Scope of delegation is limited as superior delegates the powers to the subordinates on individual bases. | Scope is wide as the decision making is shared by the subordinates also. |
| Responsibility | Responsibility remains of the managers and cannot be delegated | Responsibility is also delegated to subordinates. |
| Freedom of Work | Freedom is not given to the subordinates as they have to work as per the instructions of their superiors. | Freedom to work can be maintained by subordinates as they are free to take decision and to implement it. |
| Nature | It is a routine function | It is an important decision of an enterprise. |
| Need on purpose | Delegation is important in all concerns whether big or small. No enterprises can work without delegation. | Decentralization becomes more important in large concerns and it depends upon the decision made by the enterprise, it is not compulsory. |
| Grant of Authority | The authority is granted by one individual to another. | It is a systematic act which takes place at all levels and at all functions in a concern. |
| Grant of Responsibility | Responsibility cannot be delegated | Authority with responsibility is delegated to subordinates. |

| | | |
|---|---|---|
| Degree | Degree of delegation varies from concern to concern and department to department. | Decentralization is total by nature. It spreads throughout the organization i.e. at all levels and all functions |
| Process | Delegation is a process which explains superior subordinates relationship | It is an outcome which explains relationship between top management and all other departments. |
| Essentiality | Delegation is essential of all kinds of concerns | Decentralization is a decisions function by nature. |
| Significance | Delegation is essential for creating the organization | Decentralization is an optional policy at the discretion of top management. |
| Withdrawal | Delegated authority can be taken back. | It is considered as a general policy of top management and is applicable to all departments. |
| Freedom of Action | Very little freedom to the subordinates | Considerable freedom |

## STAFFING

The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personnels to fill the roles assigned to the employers/workforce.

According to Theo Haimann, ―Staffing pertains to recruitment, selection, development and compensation of subordinates.‖

### Nature of Staffing Function

1. **Staffing is an important managerial function-** Staffing function is the most important managerial act along with planning, organizing, directing and controlling. The operations of these four functions depend upon the manpower which is available through staffing function.
2. **Staffing is a pervasive activity-** As staffing function is carried out by all mangers and in all types of concerns where business activities are carried out.
3. **Staffing is a continuous activity-** This is because staffing function continues throughout the life of an organization due to the transfers and promotions that take place.
4. **The basis of staffing function is efficient management of personnel's-** Human resources can be efficiently managed by a system or proper procedure, that is, recruitment, selection, placement, training and development, providing remuneration, etc.
5. **Staffing helps in placing right men at the right job.** It can be done effectively through proper recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.
6. **Staffing is performed by all managers** depending upon the nature of business, size of the company, qualifications and skills of managers, etc. In small companies, the top management generally performs this function. In medium and small scale enterprise, it is performed especially by the personnel department of that concern.

**Steps involved in Staffing**

1. **Manpower requirements-** The very first step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs of the concern.
2. **Recruitment-** Once the requirements are notified, the concern invites and solicits applications according to the invitations made to the desirable candidates.
3. **Selection-** This is the screening step of staffing in which the solicited applications are screened out and suitable candidates are appointed as per the requirements.
4. **Orientation and Placement-** Once screening takes place, the appointed candidates are made familiar to the work units and work environment through the orientation programmes. Placement takes place by putting right man on the right job.
5. **Training and Development-** Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of indepth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyse their performances.
6. **Remuneration-** It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.
7. **Performance Evaluation-** In order to keep a track or record of the behaviour, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employeesin a concern.
8. **Promotion and transfer-** Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

## Manpower Planning

Manpower Planning which is also called as Human Resource Planning consists of putting right number of people, right kind of people at the right place, right time, doing the right things for which they are suited for the achievement of goals of the organization. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure.

The procedure is as follows:

1. Analysing the current manpower inventory
2. Making future manpower forecasts

3. Developing employment programmes
4. Design training programmes

**Steps in Manpower Planning**

1. **Analysing the current manpower inventory-** Before a manager makes forecast of future manpower, the current manpower status has to be analysed. For this the following things have to be noted-
   - Type of organization
   - Number of departments
   - Number and quantity of such departments
   - Employees in these work units

   Once these factors are registered by a manager, he goes for the future forecasting.

2. **Making future manpower forecasts-** Once the factors affecting the future manpower forecasts are known, planning can be done for the future manpower requirements in several work units.

   The Manpower forecasting techniques commonly employed by the organizations are as follows:

   i. **Expert Forecasts:** This includes informal decisions, formal expert surveys and Delphi technique.
   ii. **Trend Analysis:** Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).
   iii. **Work Load Analysis:** It is dependent upon the nature of work load in a department, in a branch or in a division.
   iv. **Work Force Analysis:** Whenever production and time period has to be analysed, due allowances have to be made for getting net manpower requirements.
   v. **Other methods:** Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.
3. **Developing employment programmes-** Once the current inventory is compared with future forecasts, the employment programmes can be framed and developed accordingly, which will include recruitment, selection procedures and placement plans.
4. **Design training programmes-** These will be based upon extent of diversification, expansion plans, development programmes, etc. Training programmes depend upon the extent of improvement in technology and advancement to take place. It is also done to improve upon the skills, capabilities, knowledge of the workers.

## Importance of Manpower Planning

1. **Key to managerial functions-** The four managerial functions, i.e., planning, organizing, directing and controlling are based upon the manpower. Human resources help in the

implementation of all these managerial activities. Therefore, staffing becomes a key to all managerial functions.

2. **Efficient utilization-** Efficient management of personnel‘s becomes an important function in the industrialization world of today. Setting of large scale enterprises require management of large scale manpower. It can be effectively done through staffing function.
3. **Motivation-** Staffing function not only includes putting right men on right job, but it also comprises of motivational programmes, i.e., incentive plans to be framed for further participation and employment of employees in a concern. Therefore, all types of incentive plans becomes an integral part of staffing function.
4. **Better human relations-** A concern can stabilize itself if human relations develop and are strong. Human relations become strong trough effective control, clear communication, effective supervision and leadership in a concern. Staffing function also looks after training and development of the work force which leads to co-operation and better human relations.
5. **Higher productivity-** Productivity level increases when resources are utilized in best possible manner. Higher productivity is a result of minimum wastage of time, money, efforts and energies. This is possible through the staffing and it's related activities ( Performance appraisal, training and development, remuneration)

## Need of Manpower Planning

Manpower Planning is a two-phased process because manpower planning not only analyses the current human resources but also makes manpower forecasts and thereby draw employment programmes. Manpower Planning is advantageous to firm in following manner:

1. Shortages and surpluses can be identified so that quick action can be taken wherever required.
2. All the recruitment and selection programmes are based on manpower planning.
3. It also helps to reduce the labour cost as excess staff can be identified and thereby overstaffing can be avoided.
4. It also helps to identify the available talents in a concern and accordingly training programmes can be chalked out to develop those talents.
5. It helps in growth and diversification of business. Through manpower planning, human resources can be readily available and they can be utilized in best manner.
6. It helps the organization to realize the importance of manpower management which ultimately helps in the stability of a concern.

## Obstacles in Manpower Planning

Following are the main obstacles that organizations face in the process of manpower planning:

1. **Under Utilization of Manpower:** The biggest obstacle in case of manpower planning is the fact that the industries in general are not making optimum use of their manpower and once manpower planning begins, it encounters heavy odds in stepping up the utilization.
2. **Degree of Absenteeism:** Absenteeism is quite high and has been increasing since last few years.
3. **Lack of Education and Skilled Labour:** The extent of illiteracy and the slow pace of development of the skilled categories account for low productivity in employees. Low productivity has implications for manpower planning.
4. **Manpower Control and Review:**

a. Any increase in manpower is considered at the top level of management
b. On the basis of manpower plans, personnel budgets are prepared. These act as control mechanisms to keep the manpower under certain broadly defined limits.
c. The productivity of any organization is usually calculated using the formula:

**Productivity = Output / Input**

. But a rough index of employee productivity is calculated as follows:

**Employee Productivity = Total Production / Total no. of employees**

d. Exit Interviews, the rate of turnover and rate of absenteeism are source of vital information on the satisfaction level of manpower. For conservation of Human Resources and better utilization of men studying these condition, manpower control would have to take into account the data to make meaningful analysis.
e. Extent of Overtime: The amount of overtime paid may be due to real shortage of men, ineffective management or improper utilization of manpower. Manpower control would require a careful study of overtime statistics.

Few Organizations do not have sufficient records and information on manpower. Several of those who have them do not have a proper retrieval system. There are complications in resolving the issues in design, definition and creation of computerized personnel information system for effective manpower planning and utilization. Even the existing technologies in this respect is not optimally used. This is a strategic disadvantage.

## Types of Recruitment

Recruitment is of 2 types

1. **Internal Recruitment -** is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees. Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

   Internal recruitment may lead to increase in employee‘s productivity as their motivation level increases. It also saves time, money and efforts. But a drawback of internal recruitment is that it refrains the organization from new blood. Also, not all the manpower requirements can be met through internal recruitment. Hiring from outside has to be done.

   Internal sources are primarily 3

   a. **Transfers**
   b. **Promotions (through Internal Job Postings)** and

c. **Re-employment of ex-employees -** Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

2. **External Recruitment -** External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money. The external sources of recruitment include - Employment at factory gate, advertisements, employment exchanges, employment agencies, educational institutes, labour contractors, recommendations etc.

   a. **Employment at Factory Level -** This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. This kind of recruitment is applicable generally where factory workers are to be appointed. There are people who keep on soliciting jobs from one place to another. These applicants are called as unsolicited applicants. These types of workers apply on their own for their job. For this kind of recruitment workers have a tendency to shift from one factory to another and therefore they are called as ―badli‖ workers.

   b. **Advertisement -** It is an external source which has got an important place in recruitment procedure. The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Medium used is Newspapers and Television.

   c. **Employment Exchanges -** There are certain Employment exchanges which are run by government. Most of the government undertakings and concerns employ people through such exchanges. Now-a-days recruitment in government agencies has become compulsory through employment exchange.

   d. **Employment Agencies -** There are certain professional organizations which look towards recruitment and employment of people, i.e. these private agencies run by private individuals supply required manpower to needy concerns.

   e. **Educational Institutions -** There are certain professional Institutions which serves as an external source for recruiting fresh graduates from these institutes. This kind of recruitment done through such educational institutions, is called as Campus Recruitment. They have special recruitment cells which helps in providing jobs to fresh candidates.

   f. **Recommendations -** There are certain people who have experience in a particular area. They enjoy goodwill and a stand in the company. There are certain vacancies which are filled by recommendations of such people. The biggest drawback of this source is that the company has to rely totally on such people which can later on prove to be inefficient.

   g. **Labour Contractors -** These are the specialist people who supply manpower to the Factory or Manufacturing plants. Through these contractors, workers are appointed on contract basis, i.e. for a particular time period. Under conditions when these contractors leave the organization, such people who are appointed have to also leave the concern.

## Employee Selection Process

Employee Selection is the process of putting right men on right job. It is a procedure of matching organizational requirements with the skills and qualifications of people. Effective selection can be done only when there is effective matching. By selecting best candidate for the required job, the organization will get quality performance of employees. Moreover, organization will face less of absenteeism and employee turnover problems. By selecting right candidate for the required job, organization will also save time and money. Proper screening of candidates takes place during selection procedure. All the potential candidates who apply for the given job are tested.

But selection must be differentiated from recruitment, though these are two phases of employment process. Recruitment is considered to be a positive process as it motivates more of candidates to apply for the job. It creates a pool of applicants. It is just sourcing of data. While selection is a negative process as the inappropriate candidates are rejected here. Recruitment precedes selection in staffing process. Selection involves choosing the best candidate with best abilities, skills and knowledge for the required job.

The **Employee selection Process** takes place in following order-

1. **Preliminary Interviews-** It is used to eliminate those candidates who do not meet the minimum eligibility criteria laid down by the organization. The skills, academic and family background, competencies and interests of the candidate are examined during preliminary interview. Preliminary interviews are less formalized and planned than the final interviews. The candidates are given a brief up about the company and the job profile; and it is also examined how much the candidate knows about the company. Preliminary interviews are also called screening interviews.
2. **Application blanks-** The candidates who clear the preliminary interview are required to fill application blank. It contains data record of the candidates such as details about age, qualifications, reason for leaving previous job, experience, etc.
3. **Written Tests-** Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate. They should not be biased.
4. **Employment Interviews-** It is a one to one interaction between the interviewer and the potential candidate. It is used to find whether the candidate is best suited for the required job or not. But such interviews consume time and money both. Moreover the competencies of the candidate cannot be judged. Such interviews may be biased at times. Such interviews should be conducted properly. No distractions should be there in room. There should be an honest communication between candidate and interviewer.
5. **Medical examination-** Medical tests are conducted to ensure physical fitness of the potential employee. It will decrease chances of employee absenteeism.
6. **Appointment Letter-** A reference check is made about the candidate selected and then finally he is appointed by giving a formal appointment letter.

**Difference between Recruitment and Selection**

| **Basis** | **Recruitment** | **Selection** |
|---|---|---|
| Meaning | It is an activity of establishing contact between employers and applicants. | It is a process of picking up more competent and suitable employees. |
| Objective | It encourages large number of Candidates for a job. | It attempts at rejecting unsuitable candidates. |
| Process | It is a simple process. | It is a complicated process. |
| Hurdles | The candidates have not to cross over many hurdles. | Many hurdles have to be crossed. |
| Approach | It is a positive approach. | It is a negative approach. |
| Sequence | It proceeds selection. | It follows recruitment. |
| Economy | It is an economical method. | It is an expensive method. |
| Time Consuming | Less time is required. | More time is required. |

## Orientation and Placement

Once the candidates are selected for the required job, they have to be fitted as per the qualifications. Placement is said to be the process of fitting the selected person at the right job or place, i.e. fitting square pegs in square holes and round pegs in round holes. Once he is fitted into the job, he is given the activities he has to perform and also told about his duties. The freshly appointed candidates are then given orientation in order to familiarize and introduce the company to him. Generally the information given during the orientation programme includes-

- Employee‘s layout
- Type of organizational structure
- Departmental goals
- Organizational layout
- General rules and regulations
- Standing Orders
- Grievance system or procedure

In short, during Orientation employees are made aware about the mission and vision of the organization, the nature of operation of the organization, policies and programmes of the organization.

The main aim of conducting Orientation is to build up confidence, morale and trust of the employee in the new organization, so that he becomes a productive and an efficient employee of the organization and contributes to the organizational success.

The nature of Orientation program varies with the organizational size, i.e., smaller the organization the more informal is the Orientation and larger the organization more formalized is the Orientation programme.

Proper Placement of employees will lower the chances of employee‘s absenteeism.
The employees will be more satisfied and contended with their work.

## Training of Employees

Training of employees takes place after orientation takes place. Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job. Training process moulds the thinking of employees and leads to quality performance of employees. It is continuous and never ending in nature.

### Importance of Training

Training is crucial for organizational development and success. It is fruitful to both employers and employees of an organization. An employee will become more efficient and productive if he is trained well.

Training is given on four basic grounds:

1. New candidates who join an organization are given training. This training familiarize them with the organizational mission, vision, rules and regulations and the working conditions.
2. The existing employees are trained to refresh and enhance their knowledge.
3. If any updating and amendments take place in technology, training is given to cope up with those changes. For instance, purchasing a new equipment, changes in technique of production, computer implantment. The employees are trained about use of new equipments and work methods.
4. When promotion and career growth becomes important. Training is given so that employees are prepared to share the responsibilities of the higher level job.

The benefits of training can be summed up as:

1. **Improves morale of employees-** Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.

2. **Less supervision-** A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.
3. **Fewer accidents-** Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the less are the chances of committing accidents in job and the more proficient the employee becomes.
4. **Chances of promotion-** Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.
5. **Increased productivity-** Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

### Ways/Methods of Training

Training is generally imparted in two ways:

1. **On the job training-** On the job training methods are those which are given to the employees within the everyday working of a concern. It is a simple and cost-effective training method. The inproficient as well as semi- proficient employees can be well trained by using such training method. The employees are trained in actual working scenario. The motto of such training is ―learning by doing.‖ Instances of such on-job training methods are job-rotation, coaching, temporary promotions, etc.
2. **Off the job training-** Off the job training methods are those in which training is provided away from the actual working condition. It is generally used in case of new employees. Instances of off the job training methods are workshops, seminars, conferences, etc. Such method is costly and is effective if and only if large number of employees have to be trained within a short time period. Off the job training is also called as vestibule training,i.e., the employees are trained in a separate area( may be a hall, entrance, reception area,etc. known as a vestibule) where the actual working conditions are duplicated.

### Employee Remuneration

Employee Remuneration refers to the reward or compensation given to the employees for their work performances. Remuneration provides basic attraction to a employee to perform job efficiently and effectively. Remuneration leads to employee motivation. Salaries constitutes an important source of income for employees and determine their standard of living. Salaries effect the employees productivity and work performance. Thus the amount and method of remuneration are very important for both management and employees.

There are mainly two types of Employee Remuneration

1. **Time Rate Method**
2. **Piece Rate Method**

These methods of employee remuneration are explained below in detail

#### Methods of Employee Remuneration

1. **Time Rate Method:** Under time rate system, remuneration is directly linked with the time spent or devoted by an employee on the job. The employees are paid a fixed pre-decided amount

hourly, daily, weekly or monthly irrespective of their output. It is a very simple method of remuneration. It leads to minimum wastage of resources and lesser chances of accidents. Time Rate method leads to quality output and this method is very beneficial to new employees as they can learn their work without any reduction in their salaries. This method encourages employees unity as employees of a particular group/cadre get equal salaries.

There are some drawbacks of Time Rate Method, such as, it leads to tight supervision, indefinite employee cost, lesser efficiency of employees as there is no distinction made between efficient and inefficient employees, and lesser morale of employees.

Time rate system is more suitable where the work is non-repetitive in nature and emphasis is more on quality output rather than quantity output.

2. **Piece Rate Method:** It is a method of compensation in which remuneration is paid on the basis of units or pieces produced by an employee. In this system emphasis is more on quantity output rather than quality output. Under this system the determination of employee cost per unit is not difficult because salaries differ with output. There is less supervision required under this method and hence per unit cost of production is low. This system improves the morale of the employees as the salaries are directly related with their work efforts. There is greater work-efficiency in this method.

   There are some drawbacks of this method, such as, it is not easily computable, leads to deterioration in work quality, wastage of resources, lesser unity of employees, higher cost of production and insecurity among the employees.

   Piece rate system is more suitable where the nature of work is repetitive and quantity is emphasized more than quality

# DIRECTING FUNCTION

**DIRECTING** is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. Planning, organizing, staffing has got no importance if direction function does not take place.

Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, ―Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned‖ Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.

Direction has got following characteristics:

1. **Pervasive Function -** Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.

2. **Continuous Activity -** Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human Factor -** Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. **Creative Activity -** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. **Executive Function -** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.
6. **Delegate Function -** Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people‵s behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

## Importance of Directing Function

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as ―*Life spark of an enterprise*‖. It is also called as on actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

1. **It Initiates Actions -** Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.
2. **It Ingrates Efforts -** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.
3. **Means of Motivation -** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a ―Morale booster‖ to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.
4. **It Provides Stability -** Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very

important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.

5. **Coping up with the changes -** It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptions and smooth running of an enterprise. For example, if a concern shifts from handlooms to powerlooms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.
6. **Efficient Utilization of Resources -** Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn‘t take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

From the above discussion, one can justify that direction, surely, is the heart of management process. Heart plays an important role in a human body as it serves the function pumping blood to all parts of body which makes the parts function. In the similar manner, direction helps the subordinates to perform in best of their abilities and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner. According to Earnest Dale, ―Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards‖. Therefore, it is rightly said that direction is essence of management process.

## Role of a Supervisor

Supervisor has got an important role to play in factory management. Supervision means overseeing the subordinates at work at the factory level. The supervisor is a part of the management team and he holds the designation of first line managers. He is a person who has to perform many functions which helps in achieving productivity. Therefore, supervisor can be called as the only manager who has an important role at execution level. There are certain philosophers who call supervisors as workers. There are yet some more philosophers who call them as managers. But actually he should be called as a manager or operative manager. His primary job is to manage the workers at operative level of management.

A supervisor plays multiplinary role at one time like -

1. **As a Planner -** A supervisor has to plan the daily work schedules in the factory. At the same time he has to divide the work to various workers according to their abilities.
2. **As a Manager -** It is righty said that a supervisor is a part of the management team of an enterprise. He is, in fact, an operative manager.
3. **As a Guide and Leader -** A factory supervisor leads the workers by guiding them the way of perform their daily tasks. In fact, he plays a role of an inspirer by telling them.
4. **As a Mediator -** A Supervisor is called a linking pin between management and workers. He is the spokesperson of management as well as worker.
5. **As an Inspector -** An important role of supervisor is to enforce discipline in the factory. For this, the work includes checking progress of work against the time schedule, recording the work performances at regular intervals and reporting the deviations if any from those. He can also frame rules and regulations which have to be followed by workers during their work.
6. **As a Counselor -** A supervisor plays the role of a counselor to the worker‘s problem. He has to perform this role in order to build good relations and co-operation from workers. This can be done not only by listening to the grievances but also handling the grievances and satisfying the workers.

Therefore, we can say that effective and efficient supervision helps in serving better work performance, building good human relations, creating a congenial and co-operative environment. This all helps in increasing productivity.

## Functions of a Supervisor

Supervisor, being the manager in a direct contact with the operatives, has got multifarious function to perform. The objective behind performance of these functions is to bring stability and soundness in the organization which can be secured through increase in profits which is an end result of higher productivity. Therefore, a supervisor should be concerned with performing the following functions -

1. **Planning and Organizing -** Supervisor‘s basic role is to plan the daily work schedule of the workers by guiding them the nature of their work and also dividing the work amongst the workers according to their interests, aptitudes, skills and interests.
2. **Provision of working conditions -** A supervisor plays an important role in the physical setting of the factory and in arranging the physical resources at right place. This involves providing proper sitting place, ventilation, lighting, water facilities etc. to workers. His main responsibility is here to provide healthy and hygienic condition to the workers.
3. **Leadership and Guidance -** A supervisor is the leader of workers under him. He leads the workers and influences them to work their best. He also guides the workers by fixing production targets and by providing them instruction and guidelines to achieve those targets.
4. **Motivation -** A supervisor plays an important role by providing different incentives to workers to perform better. There are different monetary and non-monetary incentives which can inspire the workers to work better.

5. **Controlling -** Controlling is an important function performed by supervisor. This will involve
    i. Recording the actual performance against the time schedule.
    ii. Checking of progress of work.
    iii. Finding out deviations if any and making solutions
    iv. If not independently solved, reporting it to top management.
6. **Linking Pin -** A supervisor proves to be a linking pin between management and workers. He communicates the policies of management to workers also passes instructions to them on behalf of management. On the other hand, he has a close contact with the workers and therefore can interact the problems, complaints, suggestions, etc to the management. In this way, he communicates workers problems and brings it to the notice of management.
7. **Grievance Handling -** The supervisor can handle the grievances of the workers effectively for this he has to do the following things :-
    i. He can be in direct touch with workers.
    ii. By winning the confidence of the workers by solving their problems.
    iii. By taking worker problems on humanitarian grounds.
    iv. If he cannot tackle it independently, he can take the help and advice of management to solve it.
8. **Reporting -** A supervisor has got an important role to report about the cost, quality and any such output which can be responsible for increasing productivity. Factors like cost, output, performance, quality, etc can be reported continually to the management.
9. **Introducing new work methods -** The supervisor here has to be conscious about the environment of market and competition present. Therefore he can innovate the techniques of production. He can shift the workers into fresh schedules whenever possible. He can also try this best to keep on changing and improving to the physical environment around the workers. This will result in
    i. Higher productivity,
    ii. High Morale of Workers,
    iii. Satisfying working condition,
    iv. Improving human relations,
    v. Higher Profits, and
    vi. High Stability
10. **Enforcing Discipline -** A supervisor can undertake many steps to maintain discipline in the concern by regulating checks and measures, strictness in orders and instructions, keeping an account of general discipline of factory, implementing penalties and punishments for the indiscipline workers. All these above steps help in improving the overall discipline of the factory.

## CONTROLLING

### What is controlling?

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals.

Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

According to Brech, ―Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.‖

According to Donnell, ―Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.‖

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

**Features of Controlling Function**

Following are the characteristics of controlling function of management-

1. **Controlling is an end function-** A function which comes once the performances are made in conformities with plans.
2. **Controlling is a pervasive function-** which means it is performed by managers at all levels and in all type of concerns.
3. **Controlling is forward looking-** because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
4. **Controlling is a dynamic process-** since controlling requires taking reviewable methods, changes have to be made wherever possible.
5. **Controlling is related with planning-** Planning and Controlling are two inseparable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. *Planning presupposes controlling and controlling succeeds planning*

## Process of Controlling

Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
   a. Measurable or tangible - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   b. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-
   a. Attitude of the workers,
   b. Their morale to work,
   c. The development in the attitudes regarding the physical environment, and
   d. Their communication with the superiors.

   It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here-extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, ― If a manager controls everything, he ends up controlling nothing.‖ For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

   Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

   a. Erroneous planning,
   b. Co-ordination loosens,
   c. Implementation of plans is defective, and
   d. Supervision and communication is ineffective, etc.

4. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-
   a. Taking corrective measures for deviations which have occurred; and

b. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

## Relationship between planning and controlling

Planning and controlling are two separate functions of management, yet they are closely related. The scopes of activities if both are overlapping to each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by. Therefore, planning and controlling reinforce each other. According to Billy Goetz, ―Relationship between the two can be summarized in the following points

1. Planning precedes controlling and controlling succeeds planning.
2. Planning and controlling are inseparable functions of management.
3. Activities are put on rails by planning and they are kept at right place through controlling.
4. The process of planning and controlling works on Systems Approach which is as follows :

   **Planning → Results → Corrective Action**

5. Planning and controlling are integral parts of an organization as both are important for smooth running of an enterprise.
6. Planning and controlling reinforce each other. Each drives the other function of management.

In the present dynamic environment which affects the organization, the strong relationship between the two is very critical and important. In the present day environment, it is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it gives us stimulus to make better plans. Therefore, planning and controlling are in separate functions of a business enterprise.

# CHAPTER FOUR

# OVERVIEW OF CORPORATE STRATEGY AND GOVERNANCE

## Strategic Management

### An Introduction

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm‘s performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn‘t ignore the threats. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

**Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members**. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

# Strategy - Definition and Features

The word ―strategy‖ is derived from the Greek word ―stratçgos‖; stratus (meaning army) and ―ago‖ (meaning leading/moving).

**Strategy** is an action that managers take to attain one or more of the organization‘s goals. Strategy can also be defined as ―A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process‖.

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vaccum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

## Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

**Strategy is a well defined roadmap of an organization**. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization‘s strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between ―where we are‖ and ―where we want to be‖.

# Components of a Strategy Statement

The strategy statement of a firm sets the firm‛s long-term strategic direction and broad policy directions. It gives the firm a clear sense of direction and a blueprint for the firm‛s activities for the upcoming years. The main constituents of a strategic statement are as follows:

## 1. Strategic Intent

An organization‛s strategic intent is the purpose that it exists and why it will continue to exist, providing it maintains a competitive advantage. Strategic intent gives a picture about what an organization must get into immediately in order to achieve the company‛s vision. It motivates the people. It clarifies the vision of the vision of the company. Strategic intent helps management to emphasize and concentrate on the priorities. Strategic intent is, nothing but, the influencing of an organization‛s resource potential and core competencies to achieve what at first may seem to be unachievable goals in the competitive environment. A well expressed strategic intent should guide/steer the development of strategic intent or the setting of goals and objectives that require that all of organization‛s competencies be controlled to maximum value.

Strategic intent includes directing organization‛s attention on the need of winning; inspiring people by telling them that the targets are valuable; encouraging individual and team participation as well as contribution; and utilizing intent to direct allocation of resources. Strategic intent differs from strategic fit in a way that while strategic fit deals with harmonizing available resources and potentials to the external environment, strategic intent emphasizes on building new resources and potentials so as to create and exploit future opportunities.

## 2. Mission Statement

Mission statement is the statement of the role by which an organization intends to serve it‛s stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization‛s present (i.e., ―about where we are‖). For instance, **Microsoft's mission** is to help people and businesses throughout the world to realize their full potential. **Wal-Mart's mission** is ―To give ordinary folk the chance to buy the same thing as rich people.‖ Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations. In today‛s dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behaviour of the employees, and a statement of the goals and objectives.

### Features of a Mission

a. Mission must be **feasible** and attainable. It should be possible to achieve it.
b. Mission should be **clear** enough so that any action can be taken.
c. It should be **inspiring** for the management, staff and society at large.
d. It should be **precise** enough, i.e., it should be neither too broad nor too narrow.
e. It should be **unique** and distinctive to leave an impact in everyone‘s mind.
f. It should be **analytical**,i.e., it should analyze the key components of the strategy.
g. It should be **credible**, i.e., all stakeholders should be able to believe it.

## 3. Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, **Microsoft's vision** is **—**to empower people through great software, any time, any place, or any device.‖ **Wal-Mart's vision** is to become worldwide leader in retailing. A vision is the potential to view things ahead of themselves. It answers the question **—**where we want to be‖. It gives us a reminder about what we attempt to develop. A vision statement is for the organization and it‘s members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be.

An effective vision statement must have following features-

a. It must be **unambiguous**.
b. It must be **clear**.
c. It must **harmonize** with organization‘s culture and values.
d. The dreams and aspirations must be **rational/realistic**.
e. Vision statements should be **shorter** so that they are easier to memorize.

In order to realize the vision, it must be deeply instilled in the organization, being owned and shared by everyone involved in the organization.

## 4. Goals and Objectives

A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have following features-

a. These are **precise and measurable**.
b. These look after **critical and significant** issues.
c. These are **realistic** and challenging.
d. These must be achieved within a **specific time** frame.
e. These include both **financial as well as non-financial components**.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

f. These are not single for an organization, but **multiple**.
g. Objectives should be both **short-term as well as long-term**.
h. Objectives must respond and react to changes in environment, i.e., they must be **flexible**.
i. These must be feasible, **realistic and operational**.

# LEVELS OF STRATEGIC MANAGEMENT

**Levels of Strategy**

Strategy may operate at different levels of an organization -corporate level, business level, and functional level. The strategy changes based on the levels of strategy.

### Corporate Level Strategy

Corporate level strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Top management of the organization makes such decisions. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

### Business-Level Strategy.

Business-level strategy is – applicable in those organizations, which have different businesses-and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product/market segments served by an organization. Since each product/market segment has a distinct environment, a SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics, yarns, fibers, and a variety of petrochemical products. For each product group, the nature of market in terms of customers, competition, and marketing channel differs.

There-fore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of re-sources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives. Such strategies operate within the overall strategies of the organization. The corporate strategy sets the long-term objectives of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBUs operations by the resources the corporate level assigns to it. There is a difference between corporate-level and business-level strategies.

For example, Andrews says that in an organization of any size or diversity, corporate strategy usually applies to the whole enterprise, while business strategy, less comprehensive, defines the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the ‗how' and corporate strategy to the ‗what'. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.'

Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

**Functional-Level Strategy.**

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordi-nation between them for optimal contribution to the achievement of the SBU and corporate-level objectives. Below the functional-level strategy, there may be operations level strategies as each function may be dividend into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.

## Levels of Strategic Management

After you've decided that strategic management is the right tool for your organization, clarifying what you intend to achieve with the outcome of the planning process is critical to a successful process. Strategic planning means different things to different people, so agreement is critical to reaching the desired end state. Here are four different levels of strategic management, each building on the previous one:

- **Level 1 — Articulated Plan:** The plan has established the mission, vision, goals, actions, and key performance indicators (KPIs) for the next 24 to 36 months.

- **Level 2 — Strategic Differentiation:** The plan has a strategic focus on delivering a unique value proposition developed from a clear understanding of market position and customer needs.
- **Level 3 — Organizational Engagement:** Everyone knows the strategic direction, understands his role, and commits to accountability. An execution/governance process is in place.
- **Level 4 — Organizational Transformation:** High-performing team, driven by shared values, consistently drives decision making based on the agreed-upon strategy with data, structure (organizational and process), and systems in place to support the activity.

As you‘re getting ready to embark on your strategic management process, pass these levels around to your management group. Gain consensus and agreement on which level your organization is working toward.

## Benefits of Strategic Management

**There are many benefits of strategic management and they include identification, prioritization, and exploration of opportunities**. For instance, newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic planning. Next, strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.

Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities.

The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

**Discharges Responsibility**

Many organizations undertake a strategic management process in order to discharge their responsibilities. There is an expectation from shareholders, stakeholders and the general community at large, that a well-managed organization has a strategic management process that guides its future success.

**Allows an Objective Assessment**

Strategic management provides a discipline that allows the senior management team to take a step back from the day-to-day business and think about the future of the organization. Without this discipline, the organization can become solely consumed with working through the next issue or problem without consideration to the larger picture, longer-term trends and associated operational and environmental alignment.

**Provides a Framework for Decision-Making**

It is not possible, (nor realistic or appropriate), for senior management to know all the operational decisions staff make on a day-to-day basis. The cumulative effect of these day-to-day decisions, (which can add up to thousands over the year), can have a significant impact on the success of the organization. Providing a framework within which staff can make these day-to-day decisions helps better focus their efforts on those activities that will best support the organization's success. Strategy provides the framework within which staff can make day-to-day operational decisions that are aligned with the achievement of the organization‘s goals.

**Enables Understanding & Buy-In**

Allowing participation in the strategic management process enables better understanding of the direction, why that direction was chosen, and the associated benefits. For some people simply knowing is enough; for many people, to gain their full support requires them to understand. Establishing the right process for the formulation and communication of strategy not only allows thinking that challenges the status-quo but also builds support for the developed solution. Good strategy formulation and communication process are key steps in enabling effective and efficient strategy deployment.

**Facilitates Measurement of Progress**

Senior management is bombarded with information. Establishing performance measures that are aligned with the strategy and provide timely and meaningful information is critical to breaking through the excessive ―information noise‖. It helps ensure timely, informed strategic decisions to be made. Strategy sets the direction and enables an organization to align its objectives and performance measures. These objectives and performance measures allow meaningful information to be provided to decision-makers regarding the organization‘s progress through such vehicles as scorecards and dashboards.

**Affords an Organizational Perspective of Competing Components**

Addressing operational issues rarely take into consideration the whole organization and the interrelatedness of the organization‘s competing components. Although senior roles require a longer-term perspective, it is still difficult for a single business unit or department head to appreciate the implications of a specific trend or event upon all areas of the organization. The strategic management process provides an opportunity for the senior management team to work together, allowing an enterprise-wide understanding of the implications of specific trends and events. Strategic management takes an organizational perspective and looks at the interrelationship between various organizational components in order to establish an organizationally optimal strategy. Strategy fundamentally boils down to making choices over conflicting priorities through the allocation of scare resources. An organizational perspective affords the ability to make informed decisions on these trade-offs.

**Enhances Strategic Agility (Innovation)**

An organization is deemed to have ―Strategic Agility‖ when it can successfully capitalize upon opportunities resulting from unanticipated and significant change. When formulated appropriately, strategy can improve the ability of the organization to respond effectively to significant change. Organizational strategy is both formulated and formed. Strategy formulation is most recognizable and depicted through senior management offsite retreats in which the direction and priorities for the future of the organization are established. The forming of strategy is the strategic decisions made day-to-day through the culmination of operational decisions of which the strategic implications are not generally evident until reviewed in retrospect. Many of these ―strategy forming‖ decisions determine the opportunities the organization chooses to pursue and not pursue. A good strategic management system provides the organization with a good strategy formulation process while ensuring the flexibility to capitalize upon appropriate opportunities that emerge over time (formed strategy).

## Limitations of Strategic Management

### The Future Rarely Unfolds As Anticipated

One of the major criticisms of strategic management is that it requires the organization to anticipate the future environment in order to develop plans, and as we all know, predicting the future is not an easy undertaking. The belief is that if the future does not unfold as anticipated, then it invalidates the strategy. Research has demonstrated that organizations that usestrategic management processes achieve better performance than organizations that don't - regardless of whether they actually achieve their intended objectives. It appears that the very act of discussing the future of the organization and thinking about the possible alternatives during the strategy formulation process actually improves the decision-making ability of the senior management team; especially during times of uncertainty.

### Return on Investment

The issue of return on investment has been largely associated with the inability to realize the value from the strategy formulation process. It is difficult to justify the value received from the strategy formulation process when very little is deployed and the only tangible evidence in the aftermath of the work is an attractive document that sits on the senior manager‗s bookshelf. However, if your strategy formulation process is tied to a strategy deployment process that results in a significant improvement in organizational performance, the investment in strategy now represents a tremendous return on your investment. The key is to start with the end in mind, that the formulation of strategy is the beginning, not the end of the process.

### Long Term Benefit vs. Immediate Results

Strategic management processes are designed to provide an organization with long-term benefits. If you are looking at the strategic management process to address an immediate crisis within your organization, it usually won't. It generally makes sense to address the immediate crises prior to allocating resources (time, money, people, opportunity cost) to the strategic management process.

**May Impede Agility**

Strategic management processes can actually impede organizational agility in two key ways. When you undertake a strategic management process, it will most likely result in the organization saying "no" to some of the opportunities that are discussed. If the only time and manner in which new opportunities can be assessed is during the periodic strategy formulation process, then the process itself may be inhibiting the organization to ―form strategy‖ and thereby may result in missed opportunities and potentially stifle innovation. In this scenario, thestrategic management process has become the very tool that now inhibits the organization's ability to innovate and capture opportunities.

The second way that agility can be impeded is through a well-executed alignment and integration of the strategy. Alignment ensures that the whole organization is pulling in the same direction and is often cited as the pinnacle of success of a well-executed strategy; however, without appropriate processes and criteria to assess and incorporate opportunities throughout the planning period it can inhibit the organization's agility. Again, there are a variety of methods in strategic management that allow an organization to formulate and deploy strategy while simultaneously allowing the integration and building of strategic agility.

**Closing Thoughts**

In recent years, virtually all firms have realized the importance of strategic management. However, the key difference between those who succeed and those who fail is that the way in which strategic management is done and strategic planning is carried out makes the difference between success and failure. Of course, there are still firms that do not engage in strategic planning or where the planners do not receive the support from management. These firms ought to realize the benefits of strategic management and ensure their longer-term viability and success in the marketplace.

## Importance of Vision and Mission Statements

One of the first things that any observer of management thought and practice asks is whether a particular organization has a vision and mission statement. In addition, one of the first things that one learns in a business school is the importance of vision and mission statements.

**This article is intended to elucidate on the reasons why vision and mission statements are important and the benefits that such statements provide to the organizations**. It has been found in studies that organizations that have lucid, coherent, and meaningful vision and mission statements return more than double the numbers in shareholder benefits when compared to the organizations that do not have vision and mission statements. Indeed, the importance of vision and mission statements is such that it is the first thing that is discussed in management textbooks on strategy.

**Some of the benefits of having a vision and mission statement are discussed below:**

- Above everything else, vision and mission statements provide unanimity of purpose to organizations and imbue the employees with a sense of belonging and identity. Indeed, vision and mission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.
- Vision and mission statements spell out the context in which the organization operates and provides the employees with a tone that is to be followed in the organizational climate. Since they define the reason for existence of the organization, they are indicators of the direction in which the organization must move to actualize the goals in the vision and mission statements.
- The vision and mission statements serve as focal points for individuals to identify themselves with the organizational processes and to give them a sense of direction while at the same time deterring those who do not wish to follow them from participating in the organization‘s activities.
- The vision and mission statements help to translate the objectives of the organization into work structures and to assign tasks to the elements in the organization that are responsible for actualizing them in practice.
- To specify the core structure on which the organizational edifice stands and to help in the translation of objectives into actionable cost, performance, and time related measures.
- Finally, vision and mission statements provide a philosophy of existence to the employees, which is very crucial because as humans, we need meaning from the work to do and the vision and mission statements provide the necessary meaning for working in a particular organization.

As can be seen from the above, articulate, coherent, and meaningful vision and mission statements go a long way in setting the base performance and actionable parameters and embody the spirit of the organization. In other words, vision and mission statements are as important as the various identities that individuals have in their everyday lives.

It is for this reason that organizations spend a lot of time in defining their vision and mission statements and ensure that they come up with the statements that provide meaning instead of being mere sentences that are devoid of any meaning.

**Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives**. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Following are the main **steps in implementing a strategy:**

- ✓ Developing an organization having potential of carrying out strategy successfully.
- ✓ Disbursement of abundant resources to strategy-essential activities.
- ✓ Creating strategy-encouraging policies.
- ✓ Employing best policies and programs for constant improvement.
- ✓ Linking reward structure to accomplishment of results.
- Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

## Strategic Management Process - Meaning, Steps and Components

The strategic management process means defining the organization‘s strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises it‘s competitors; and fixes goals to meet all the present and future competitor‘s and then reassesses each strategy.

**Strategic management process has following four steps:**

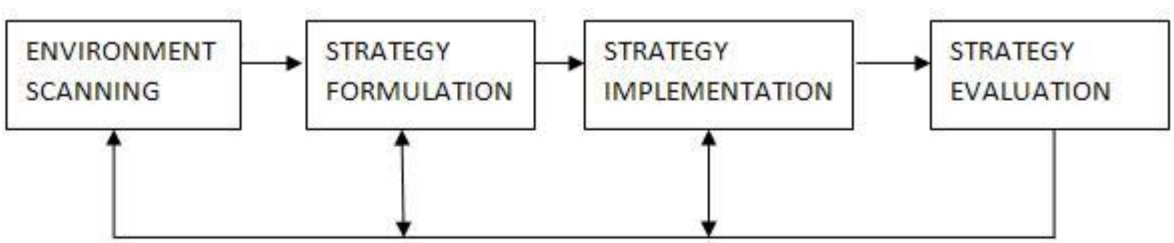
1. **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose.

After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.

4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it's implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.




**Components of Strategic Management Process**

Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

# Corporate Governance

**What is Corporate Governance?**

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual‘s actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today‘s market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

**Importance of Corporate Governance**

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors‘ confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

## Principles of Corporate Governance

Corporate governance in the Company is based on the following principles:

**Accountability**
The Code of Corporate Governance envisages accountability of the Board of Directors of the Company before all shareholders in accordance with the legislation in force, and is the governing document for the Board of Directors in issues related to strategy planning, administration and control over the Company‘s executive bodies.

**Fairness**
The Company undertakes to protect the rights of its shareholders and treat all shareholders on an equal basis. The Board of Directors enables its shareholders to receive efficient protection if their rights are violated.

**Transparency**
The Company shall provide timely disclosure of credible information on all the important facts related to its activities, including information on its financial condition, social and environmental measures, results of activities, ownership and management structures; the Company shall provide free access to such information for all interested parties.

**Responsibility**
The Company acknowledges the rights of all interested parties envisaged by the legislation in force, and aims at cooperation with such parties in order to provide steady development and ensure financial stability of the Company.

## PRINCIPLES OF GOOD CORPORATE GOVERNANCE

### i. introduction

Corporate Governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society.

Good Corporate Governance requires that the State puts in place and maintains an enabling environment in which efficient and well-managed companies can thrive. It is therefore expected that companies will continue to play their part in encouraging dialogue between the public and private sectors in promoting good public governance and an enabling business environment.

It is the responsibility of the owners of the corporation to elect competent directors and to ensure that they govern the corporation in a manner consistent with their stewardship.

Good corporate governance dictates that the Board of Directors governs the corporation in a way that maximizes shareholder value and in the best interest of society. It is neither in the long-term interest of the enterprise or society to short-change customers, exploit labour, pollute the environment or engage in corrupt practices.

The guidelines which follow set 21 principles of good corporate governance, aimed primarily at the Board of Directors in corporations with a unitary Board structure. These are followed by a sample code which expounds on these principles.

The following is a summary of the principles of good corporate governance:

**Authority and Duties of Members [or Shareholders]**

Members or shareholders [as owners] of the corporation shall jointly and severally protect, preserve and actively exercise the supreme authority of the corporation in general meetings. They have a duty, jointly and severally, to exercise that supreme authority of the corporation to:

- ♦ Ensure that only competent and reliable persons, who can add value, are elected or appointed to the Board of Directors;
- ♦ Ensure that the Board is constantly held accountable and responsible for the efficient and effective governance of the corporation so as to achieve corporate objectives, prosperity and sustainability.
- ♦ Change the composition of a Board that does not perform to expectation or in accordance with the mandate of the corporation.

**Leadership**

Every corporation should be headed by an effective Board that should exercise leadership, enterprise, integrity and judgment in directing the corporation so as to achieve continuing prosperity and to act in the best interest of the enterprise in a manner based on transparency, accountability and responsibility.

**Appointments to the Board**

Appointments to the Board of Directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision-making process.

**Strategy and Values**

The Board of Directors should determine the purpose and values of the corporation, determine the strategy to achieve that purpose and implement its values in order to ensure that the corporation survives and thrives and that procedures and values that protect the assets and reputation of the corporation are put in place.

**Structure and Organization**

The Board should ensure that a proper management structure [organization, systems and people] is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility.

**Corporate Performance, Viability and Financial Sustainability**

The Board should monitor and evaluate the implementation of strategies, policies and management performance criteria and the plans of the corporation. In addition, the Board should constantly review the viability and financial sustainability of the enterprise and must do so at least once every year.

**Corporate Compliance**

The Board should ensure that the corporation complies with all relevant laws, regulations, governance practices, accounting and auditing standards.

**Corporate Communication**
The Board should ensure that the corporation communicates with all its stakeholders effectively.

**Accountability to Members**
The Board should serve the legitimate interests of all members and account to them fully.

**Responsibility to Stakeholders**
The Board should identify the corporation‘s internal and external stakeholders; agree on a policy or policies determining how the corporation should relate to, and with them, in creating wealth, jobs and the sustainability of a financially sound corporation while ensuring that the rights of stakeholders [whether established by law or custom] are respected, recognized and protected.

**Balance of Powers**

The Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the Board so that it can exercise objective and independent judgment.

**Internal Control Procedures**
The Board should regularly review systems, processes and procedures to ensure the effectiveness of its internal systems of control so that its decision-making capability and the accuracy of its reporting and financial results are maintained at the highest level at all times.

**Assessment of Performance of the Board of Directors**

The Board should regularly assess its performance and effectiveness as a whole and that of individual members, including the Chief Executive Officer. A summary of the major findings together with a statement confirming that the Board has carried out a self-assessment exercise should be made to the annual general meeting.

**Induction, Development and Strengthening of Skills of Board Members**

The Board should recognize the need for new members to be inducted into their roles and for all Board members to develop and strengthen their governance skills in light of technological developments, changing corporate environment and other variables. The Board should accordingly organize for the systematic induction and continuous development of its members.

**Appointment and Development of Executive Management**

The Board should appoint the Chief Executive Officer and participate in the appointment of all senior management, ensure motivation and protection of intellectual capital crucial to the corporation, ensure that there is appropriate and adequate training for management and other employees and put in place a succession plan for senior management.

**Adoption of Technology and Skills**

The Board must recognize that to survive and thrive it has to ensure that the technology, skills and systems used in the corporation are adequate to run the corporation and that the corporation constantly reviews and adopts the same in order to remain competitive.

**Management of Corporate Risk**

The Board must identify key risk areas and key performance indicators of the corporation‘s business and constantly monitor these factors.

**Corporate Culture**

The Board should define, promote and protect the corporate ethos, ethics and beliefs on which the corporation premises its policies, actions and behaviour in its relationships with all who deal with it.

**Social and Environmental Responsibility**

The Board should recognize that it is in the enlightened self-interest of the corporation to operate within the mandate entrusted to it by society and shoulder its social responsibility. For this reason, a corporation does not fulfill its social responsibility by short-changing beneficiaries or customers, exploiting its labour, polluting the environment, failing to conserve resources, neglecting the needs of the local community, evading taxation or engaging in other anti-social practices.

**Recognition and Utilization of Professional Skills and Competencies**

The Board should recognize and encourage professional development and, both collectively and individually, have the right to consult the corporation‘s professional advisers and, where necessary, seek independent professional advice at the corporation‘s expense in the furtherance of their duties as directors. [This is in addition to and not a substitute to their personal duty to acquire competence, training and information that would help them make informed, independent and astute decisions on issues relevant to the corporation.

**Recognition and Protection of Members' Rights and Obligations**

Members of the corporation have a right to receive any information that would materially affect their membership, to participate in any meeting of members and to participate in the election of directors and be facilitated to fully participate in all other resolutions of interest to them as members.

The attention of the Boards of Directors is increasingly being drawn to the need to ensure that:

♦ The governance framework takes account of gender and children‘s rights and the special needs of disabled and/or handicapped citizens.

♦ The Corporation promotes the interests, rights and welfare of host communities.

♦ The Corporation protects and preserves the environment

## CORPORATE GOVERNANCE THEORIES

There are four major theoretical frameworks that can be identified from the corporate governance literature: agency, stewardship, resource dependence, stakeholder and managerial-hegemony. These theories have evolved from many disciplines such as finance, economics, accounting, law, management and organizational behavior. For example, agency theory arises from the field of finance and economics and stakeholder theory from a more social-oriented perspective on corporate governance. All these disciplines have contributed to the development of theoretical aspects of corporate governance.

These theories includes:-

1. **Agency Theory**
2. **Resource Dependence**
3. **Stewardship Theory**
4. **Stakeholder Theory**

### Agency Theory

The agency relationship is seen as a contractual link between the shareholders (the principals) that provide capital to the company and the management (agent) who runs the company. The principals engage the agent to perform some services on their behalf and would normally delegate some decision-making authority. However, as the number of shareholders and the complexity of operations grew, management, who had the expertise and essential knowledge to operate the company, increasingly gained effective control and put them in a position where they were prone to pursue their own interests .

The literature on agency theory addresses three types of problems that could transpire from the separation of ownership and management, which might consequently affect firm value. They are the effort problem, the assets�own use problem and differential risk preferences problem. The effort problem concerns whether or not managers apply proper effort in managing corporations so as to maximize shareholders‘ wealth. Problems arise because principals are not able to determine if the managers are performing their work appropriately. Managers may not exert the same high effort levels required for firm value maximization as they would if they owned the firm.

The use of assets problem concerned the insiders who control corporate assets. They might abuse these assets for purposes that are harmful to the interests of shareholders such as diverting corporate assets, claiming excessive salaries and manipulating transfer prices of assets with other entities they control . The differential risk preferences problem arises because the principal and managers have different views on risk taking. Managers may not act in the best interest of shareholders and may have different interests and risks preferences. For example, managers have a wider range of economic and psychological needs (such as to maximize compensation, security, status and to boost their own reputation), which may be adversely affected by a project that increases a firm‘s total risk or has rewards in the longer-term. This may result in managers being too cautious in making investments and thus failing to maximise shareholders‘ wealth.

Hence, agency theorists recommended that corporate governance mechanisms are needed to reduce these agency conflicts and to align the interests of the agent with those of the principal. These mechanisms include incentive schemes for managers which reward them financially for maximising shareholder interests. Such schemes typically include strategies whereby senior executives acquire shares, conceivably at a bargain price, thus aligning financial interests of executives with those of shareholders. Other mechanisms include fixing executive compensation and levels of benefits to shareholders returns and having part of executive compensation deferred to the future to reward long-run value maximisation of the corporation. Besides that, appointing more NEX on the boards to check on managers' behaviour could also reduce agency costs.

**Resource Dependence Theory**

The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive. This means that boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Environmental linkages could reduce transaction costs associated with environmental interdependency. The organization's need to require resources leads to the development of exchange relationships between organizations. Further, the uneven distribution of needed resources results in inter-dependent organizational relationships. Several factors would appear to intensify the character of this dependence, e.g. the importance of the resource(s), the relative shortage of the resource(s) and the extent to which the resource(s) is concentrated in the environment .

In this context, many of the resources are directly and indirectly controlled by the government. Hence, appointing directors that have influence and access to key policy-makers and government is seen as an important strategy for survival because of their knowledge and prestige in their professions and communities, firms are able to extract useful resources. This could enhance the firm's legitimacy in society and to help it achieve their goals and improve performance. Through the resource dependence role, directors may also bring resources such as specialized skills and expertise. This concept has important implications for the role of the board and its structure, which in turn affects performance. In summary, resource dependence theory provides a convincing justification for the creation of linkages between the firm and its external environment through boards as firms that create linkages could improve their survival and performance.

***Stewardship theory***

Unlike agency theory, stewardship theory assumes that managers are stewards whose behaviors are aligned with the objectives of their principals. The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses. Therefore, there are non-financial motivators for managers.

The theory also argues that an organization requires a structure that allows harmonization to be achieved most efficiently between managers and owners. In the context of firm‘s leadership, this situation is attained more readily if the CEO is also the chairman of the board. This leadership structure will assist them to attain superior performance to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. In this situation, power and authority are concentrated in a single person. Hence, the expectations about corporate leadership will be clearer and more consistent both for subordinate managers and for other members of the corporate board. Thus, there is no room for uncertainty as to who has authority or responsibility over a particular matter. The organization will enjoy the benefits of unity of direction and of strong command and control.

**Stakeholder Theory**

The final set of influential ideas about governance and performance that we want to introduce here is stakeholder theory. These ideas were originally developed by Ed Freeman in the 1980s, but have achieved a wider currency in the UK, in part through initiatives such as the RSA's 'Tomorrow's Company' project. Stakeholder theory challenges agency assumptions about the primacy of shareholder interests. Instead it argues that a company should be managed in the interests of all its stakeholders. These interests include not only those of the shareholder but also a range of other direct and indirect interests. The employee is obviously a key stakeholder and there have been long-running arguments amongst governance academics such as Margaret Blair that employees just as much as shareholders are 'residual risk-takers' in a firm. An employee's investment in firm-specific skills means that they too should have a voice in the governance of the firm. But stakeholder theory would also insist that other groups - suppliers and customers - have strong direct interests in company performance while local communities, the environment as well as society at large have legitimate indirect interests.

The argument that is repeatedly raised against a stakeholder view of the firm is that it is hard to operationalise because of the difficulties of deciding what weight should be given to different stakeholder interests. In terms of corporate governance it is argued that, were executives to be made accountable to all of a company's stakeholders they would, in effect, be answerable to none. Enlightened stakeholder theory therefore suggests the practical value of accountability to shareholders even if a board takes other interests into account in its conduct of a firm.

In relation to company performance, however, stakeholder theory has made a number of key contributions. The recent profusion of interest in business ethics can be traced to stakeholder ideas. Excessive levels of executive pay and the way that these have often gone hand in hand with company downsizing and all its negative impacts on employees and local communities undermine the legitimacy of the demand for 'shareholder value'. Corporate failures and associated pension fund collapses threaten both the basis of the traditional psychological contract as well as the 'licence to operate' that underpins the privileges afforded by society to corporate entities. Globalisation has also brought with it the rise of the single-issue pressure group and a heightened visibility to corporate practices - the use of child labour, environmental damage, corruption - that might formerly have remained hidden from sight. The importance that is now given to corporate value statements, as well as the board's role in creating corporate ethics codes, and social and environmental reporting all reflect an acknowledgement of a wider set of corporate obligations beyond the delivery of shareholder value, or at least insist that such performance must be realised within certain ethical constraints.

While ethical codes have the potential to constrain *how* performance is pursued, arguably the most direct contribution of stakeholder ideas to company performance is to be found in Kaplan and Norton's (1992) ideas about the Balanced Scorecard and the revolution in performance measurement that this has encouraged. Kaplan and Norton acknowledge the power of measurement on performance, as well as the potential distortions on operational effectiveness that can arise from purely financial accounting measures like earnings per share or return on investment.

The Balanced Scorecard embodies key stakeholder interests in a firm-specific set of measures that link important operational drivers to financial performance. It therefore provides managers with a way to explore the inter-dependencies between customers' needs, and what the company must do operationally to meet these needs and sustain competitive success. It has both an immediate performance focus as well as pointing to key areas for continuous improvement and innovation. Kaplan and Norton suggest that the orientation of traditional performance systems is the 'control' of individual behaviour through measurement. By contrast the focus of the Balanced Scorecard, they suggest, is 'strategy and vision', that establishes goals but then promotes initiative and learning - both individual, team, and across-functions - in pursuit of such goals. From this perspective the key role of senior executives and the board lies in the setting of company strategy and vision. High performance depends on the board's understanding of the key business and competitive drivers, its capacities for strategic thought, as well as its communication and leadership skills in relation to staff, customers and financial markets.

# CHAPTER FIVE

# ENVIRONMENTAL ANALYSIS

## Environmental Scanning - Internal & External Analysis of Environment

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. **Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment**. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

**Internal analysis of the environment** is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors‘ moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigile to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor‘s activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization‘s industry, including the competitive position of a particular organization and it‘s main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization‘s external environment reveals opportunities and threats for an organization.

Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

## THE ENVIRONMENT UNDER WHICH MANAGEMENT IS PRACTISED

**Definition of Environment**
Organizations do not operate in vacuums rather they operate within the setting of a larger system which constitutes the environment

Environment generally refers to the surroundings, circumstances and influences on individuals or organizations. The effects of the environment can either be positive (i.e. beneficial) or negative (i.e. cost/constraints)

Although constitutionally the power of managing organizations rests with management, which should use its ability to make decisions, in real life this is not always possible because the environment exerts pressure on management. These pressures are what are referred to as environmental constraints.

The environment has also been defined as the aggregate of socio-cultural, economic, and physical conditions that influence the life of an individual, organization or community. No enterprise of any kind can operate in the absence of environmental constraints, or restrictions imposed by the organizational surroundings. While managers exercise power their authority is always limited by the environment, of necessity then, all enterprises must adjust to the environments in which they exist. Every organization has two types of environments: Internal (task) and External (general).
**The External Environment**

The external environment of an organization, also sometimes called its general environment consists of those factors that are outside the control of the manager (external to it) but which nevertheless affect managerial decision-making.
The external forces generally affect all organization within that society so they are not specific to any one organization.

**Social and Cultural environment**

The business operates within a social framework. Four aspects of this are relevant.

2.2 Power: - who has it how effective is it and how is it used.
2.3 Leadership:- who are the leaders and what are their weaknesses and strength.
2.4 Culture:- the value s and traditions within which the business must operate. One

problem forcing multinational has often been failure to cope with the different cultural values of the countries within which they operate.

2.5 Risk:- attitudes towards risks and risk taking can be risk averse or seekers.

2.6 The organisation is influenced by changes in the nature, habits and attitudes of society: -

2.7 Changing values and lifestyles eg. flexible working hours, internet access and other IT devices that allow people to shop on line

2.8 Changing beliefs

2.9 Changing patterns of work and leisure

2.10 Demographic changes.

2.11 Changing mix in the ethnic and religious background of the population.

The social environment also covers the study of population trends. The manager will make use of such trend to determine the size, type and location of the market place for products or services.

Size: Expected growth or decline on the national and international population affects the markets size.

Type: Changes in the age distribution affects the product or services to be offered.

Location: The expected drift of population into different parts of the country affects the channels of distribution.

Demographic changes can have negative impact on demand. Falling birth rates could indicate problems ahead for producers and sellers of baby products later.

Emigrating population can reduce demand on a local basis.

Culturally changes in tastes and fashion can have a damaging effect on organisations that fail to anticipate the changes eg. clothing.

**Legal environment**

It is concerned with how an organisation does business and covers:-

Law of contract i.e. validity of contract.

Sale of goods Act – selling practices

Health and safety legislation for example in UK there is an Act that governs health and safety at the workplace. It covers the working condition and the preventive measures that an employer should put in place.

Employment Act: How an organisation treats its employees.

Legislation on competitive behaviour – Law of Tort.

Law of Tort: Negligence, Auditor_s and management liability.

Environmental legislation: Pollution control such as waste management.

Company_s Act in Kenya Cap

486 Tax Act Cap 470

Changes in the law can affect the organisation in many ways for example a tightening of health and safety legislation may increase costs. Premises failing to meet standards may be closed down.

- A particularly damaging change is the complete ban on a company_s product and this could be worse if the company had not diversified enough its product portfolio. This is what BAT (K) Ltd is facing as many international organisation press on for a total ban on marketing of tobacco products.

**The economic environment**

The current state of the economy can affect how a company performs. The rate of growth in the economy is a measure of the overall change in demand for goods and services, Other than economic influences include:-

Taxation levels
Inflation rate
Balance of trade and exchange rates
Level of unemployment interest rates and availability of credit
Government subsidiesOne should also look at international economic issues:-
The extent of protectionist measures.
Comparative rates of growth, inflation, wages and
taxation Freedom of capital movement
Economic agreement in various trading blocs such as the EU,
COMESA. Relative exchange rates.
A downturn in the economy can lead to corporate failures across a number of sectors. The worst hit are suppliers of goods with high income elasticity demand eg. house builders like Housing Finance.

Deflationary government fiscal policy (low government spending, high taxation and a planned budget surplus) and central bank monetary policy

High interest rates, restrictions on money supply expansion and revaluation of currency can adversely affect a business. This is because they influence demand for goods both domestically and internationally, cost of capital and the level of profitability which in turn affects dividends and retained earnings level.

**Political environment**

The origin must react to the attitude of the government. The organisation must react to the new attitude of the government of the day. The government is the nation_s largest consumer, employer and investor and any changes in the spending priorities will have a significant impact on a business.

Political influence will include legislation on trading pricing, dividends tax, employment, privatisation, development of free market influences and unemployment.

Economic forecasts are normally prepared on the basis that the existing government policies continue. Other factors are political stability in a country, which will influence the rate of investment in the country.

**Technological environment**

This is a rapidly changing area and organisations should be very careful with it. It can influence the following:-

Changes in production techniques e.g. the use of robots, Computer Aided Manufacture
Products that are made or sold e.g. software
How services are provided. ATMS for banks
How to identify markets creation of customer databases.

Much has been made of the application of new technologies to communications and business especially the Internet.

The impact of information as the raw material in a knowledge-based economy is huge. Within an industry failure to exploit information and new production technology can lea to an organisation failing behind its rivals and losing its competitive edge.

The distribution of services has change and there has been removal of entry barriers in certain industries such as banking and insurance. Much lower start up costs has created threats to the established players, which if they do not respond to, could lead to decline. New technology leads to innovation of substitutes for example in the pharmaceutical industry, biotechnology and data storage devices.

Examples of changes in production processes includes use of robotics and computers. This has led to lower cost of production, better quality goods or both.

**Competitors.**

**INTERNAL CONSTRAINTS (within the firm)**

The following are constraints that originate from within the organization but which management must take care of.

i. Constraints imposed by organizational charters and guidelines

Many organizations such as government agencies, religious bodies and corporations have written documents which constitute corporate charters, by-laws, policies, rules, constitutions etc. These documents spell out what the organization can or cannot do and managers in these organizations are limited by what these documents say.

ii. Constraint imposed by organizational policies, procedures, rules and strategies

These predetermined plans place limits on what an organization can or cannot do e.g. policy specifying that all sales be to wholesalers tells managers that sales will not be made to ultimate consumers at all, or rules against members of the same family working in the same organization.

iii. Constraints imposed by limited money and personnel

No organization has unlimited capital. Because of insufficient funds, managers may be unable to hire the best qualified people, purchase the best equipment and land and so forth. Therefore the organization will be restricted in what actions it can take. Managers may also be limited by the personnel (employees) within the organization who may not have the necessary skills or knowledge to carry out planned activities. Employees may also resist changes that affect them in the organization.

iv. Constraints imposed by higher level management
Policies, procedures and rules such as noted above are developed by higher level management. In addition higher level managers develop the strategies that direct the actions of other members of the organizations. The actions of higher management can therefore limit the actions of the lower level management.

v. Constraints imposed by custom and culture.

Custom is defined as long established, continuous, reasonable and constant practices considered as unwritten law and resting for authority on long consent. Custom defines the unique ways of how things have always been done in the organization.

vi. Constraints imposed by stockholders and Boards of Directors

Shareholders have the opportunity to influence a company by exercising voting rights.

**Note:**
The five elements of the external environment (i.e economic socio-cultural, political, legal, international and technological) affect the organization indirectly. Managers should monitor the indirect action factors for early warning signs of change that might later affect the organization.

Managers can only adjust to the external environment through the planning process, or by changes in the formal organization structure i.e through flexibility which involves a conscious structuring of the organization so that it will best meet the demands of the environment at any given time.

The direct action factors of the environment consists of the organizations stakeholders i.e. the groups which have direct impact on the organization. These are either internal like employees, shareholders and the Board of Directors or external like customers, suppliers, competitors, labour unions, financial institutions, the media and competitors. Managers need to balance the interest of all those stakeholders for the good of the organization. This can be done through such actions as (advertising, lobbying and collective bargaining).

**TIME MANAGEMENT TECHNIQUES**

**MANAGER AND THE MANAGER OF THE ENVIRONMENT**

**Introduction**

The key to using time effectively is better management. Managers and leaders need to manage their time effectively. You cannot save time you simply lose more and more of it as the days, weeks, months and years progress. You find that by the end of one day, no more hours are remaining for doing any work.

You must budget your time so as to achieve good results. To budget your time, you will have to establish specific goals, design deadlines, and allocate time for each important activity which you want to perform each day. As a manager, you are actively involved in creativity, innovation, problem-solving and opportunity seeking on behalf of your organisation. These activities are hallmarks of entrepreneurial managers and leaders. Hence it is essential that you set aside your time for each of them, plus all other duties to be performed in your organisation.

**Setting daily goals and time-scheduling:**

You will set your daily goals, which must be specific and attainable. This is the keystone to scheduling your time. It will give you a sense of purpose and accomplishment at the end of each day. Both goal-setting and time-scheduling are important processes which differ for each individual.

Be aware of factor in your style of management and recognise that you have time limits for each goal. Your creative and productive activities should include setting goals, determining priorities and establishing convenient time limits in your organisation.
It is necessary for you as an entrepreneur to be goal-oriented. Have your short-term and long-term goals and establish your work priorities. Revise your time-plan regularly so that you achieve your goals.

It is advisable to stress the importance of time to employees so that there is no misuse of your time and organisation_s time. You will spend most of your time on those objectives and problems which affect the whole organisation. It is also important to avoid spending too much time on easy problems and leaving out difficult ones. Just identify the major problems and use your priority order to tackle them all.

**Time-saving methods**

Maintain a simple filing system. It is useful to review the files at regular intervals. Those, which are no longer needed, should be thrown away.

Let your committee meetings and conferences be held near lunchtime or dinnertime. Majority of the participants will be keen to finish the meetings in scheduled time.

Screen telephone calls in order that you answer only the essential ones. Your secretary or assistant can take messages for the rest. You can answer them later.

Keep your desk clear by removing away the materials, which you are not currently using. By doing so you will avoid distraction and the tendency of doing too many things at the same time.

Be fully aware of your key hours of the day. Use them effectively together with the lunch-time and the short period finishing the work in the evening.

**Potential ways of wasting time**

Taking too much time for working to chat with people on personal matters not connected with work.
Long group or committee meetings which may not be productive. Too many interruptions during working time.
Dis-organisation arising from poor management.
Work is not properly delegated or very little delegation is allowed. Leader/manager may not be decisive.
Lateness and absence are other potential ways of losing time for performing tasks.

Successful entrepreneurs must use their time effectively because any time which has been spent is gone. It cannot be recovered. Entrepreneurs must use every minute productively. They must adopt their own methods of planning, organising leading/directing and controlling for the most productive performance.

**Time management techniques**

Daily goals. First, identify your specific daily goals. Know what you want to accomplish each day. List the work goals, in order of importance. Then tackle the most important goal before you to the others in your priority list. Have time to work on your own until you finish your major goals. There should be no interruptions and distractions during this time of your total concentration. Establish your office routine to operate even if you are not there.
Deadlines. Set specific deadlines with time targets to achieve the tasks. Let your deadlines be realistic and achievable. Do everything possible to meet your time targets.
Taking notes. Maintain a notebook or diary all the time. Write down your established keypoints to provide a permanent record of committee meetings, telephone conversations an your discussions with others. Record your own thoughts and ideas plus future appointments, things to do, names and telephone numbers of the people you deal with.
Use telephone. Use telephone as the main communication link between your office and others in your working world. Keep letters to a minimum except where necessary. Use also telex, fax and e-mail facilities to communicate with your working world. Telephone is particularly good because it provides a two-way conversation. Hence it is quick for solving problems as opposed to long meetings or letters.
Self-motivation. Successful entrepreneurs are highly motivated individuals. Motivation

helps them to accomplish the tasks which are to be undertaken within a planned period of time. Self –motivation is used as another technique of time management because it helps them accomplish many tasks within a given time period.

Action oriented. Be action-oriented if you want to manage your time-well. Once you decide to do something, eg. solving a problem, do it promptly. It is advisable to take time to plan your work and then implement it.

Work plan. Plan your work in detail for today and tomorrow as well. At the end of a day‗s work, it is logical to prepare another work schedule for tomorrow.Reduce the danger of procrastination. At the end of each day, you will examine ways in which time was wasted and use the experience to avoid time wasting activities in future.

Ask managerial questions. Before you start working, you need to ask helpful and relevant questions. Examples of helpful questions are: What? When? How? and Why? These questions are actually managerial questions because their answers help you to find out more effective and efficient ways of attaining your goals and objectives.

What activities do you need to delegate to your staff?

What are your priorities in decision-making process?

Do you have properly scheduled activities? Are they accomplished within the planned Time?

Do you concentrate in one activity at a time or do you handle many activities without Proper concentration?

Avoid doing everything. It has been said: ―if you want something done, have a busy person do it.‖ You are a busy entrepreneur with purposeful actions. Concentrate your efforts on the important things that lead to significant results. Select your work activities and try as much as possible not to do everything. If some activities are not directly connected with your priority goals, it is advisable to say ―no‖ because they are time-consuming.

Reflective thinking. Acquire this art of learning from one‗s past experience, present and potential future activities. People think about what they do, hence they do not find time to be alone while resting or before sleeping. It may be when one is traveling, waiting for transport or walking alone. You can use such times for reflecting on your work,

Review and evaluate your experience. If you review and evaluate your past experiences you, will determine which ones were interesting and productive. You will know which ones are likely to face similar experiences in future, you can choose the activities you consider useful an productive for your future activities.

Working in blocks of time. It is advisable to perform some tasks within a given period when you feel most effective. This can give you an opportunity to work undisturbed for the period of block time. This maybe for 3 or 4 hours. Lunch –time can be included in which case you take a good breakfast and miss lunch. This can be critical to your success if you are dealing with a special problem or situation.

Your twelve master keys of time management.

**Key I** Find out where your time goes. What did you do for a whole day?
Did you keep track of your activities?
Did you record all worthy or unworthy activities?

**Key 2: Find out why your time goes.**
Did you put your efforts on worthwhile things.

Did you deviate into other activities from your planned work? Did your boss, peers, family or customers deviate your attention?

**Key 3: Minimise your time commitments.**

Do not over stretch yourself; balance your time for everything you do. Then you will be effective and efficient in your work.

**Key 4: Prioritise your work or tasks.**

Separate what has to be done first from that which can be done later.
Have your priority order for one day, a week, a month and a year. Build this into your plans.

**Key 5: Cut down on your time wasting activities.**

Reduce trivial activities Invest on useful activities.

**Key 6: Be ruthless with interruptions, especially unnecessary ones**

Discourage disruptions, especially telephone calls, people, etc
Avoid unnecessary social conversations, gossips, etc Cut down too many instructions to people, this will reduce wastage of time

**Key 7: Learn how to locate the required information .**

Do no spend a lot of time searching for the information required to do the work. The information search occupies about 20% or more of one_s working time.

**Key 8: Build your time control plan.**
This plan should fit your personality or job

It should fit your unique personality as an entrepreneur It must reflect realistic and effective usage of time. It must fit your unique perception of time.

**Key 9: You should use other people to your advantage**

Get others (by inspiring them) to do your work, eg. by delegation of work to others capable of carrying out the work.

**Key 10: Become creative in using time**

Replace old fashioned ways with new modern ways of doing things eg computer, telephone, e-mail Fax machines, etc. Adopt the modern ways of doing things in your working culture.

**Key 11: Avoid temptations to put off difficult tasks and unpleasant work.**

Plan to tackle difficult tasks and unpleasant work according to your priority order. Avoid the persistent and unwise temptations of delaying what is planned in your ―things to do list especially if it is difficult.

**Key 12: Learn how to use your time smatter and not harder.**

Avoid straining over your time, use modern technology
Adopt communication technology which helps your to accomplish your tasks at a lesser time.
Computers, telephone, e-mail and fax machines are recommended for communication technology

Remember these useful TIME GOALS: -

Concentrate on important activities
Avoid the deadline trap
Plan time management
Recognise time constraints
Minimise disruptions
Get information quickly
Consider time as your major asset and invest wisely in time management.

# CHAPTER SIX

# STRATEGY FORMULATION

## Introduction

*Strategy formulation* is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose. Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

A company that has not taken the time to develop a strategic plan will not be able to provide its employees with direction or focus. Rather than being proactive in the face of business conditions, an organization that does not have a set strategy will find that it is being reactive; the organization will be addressing unanticipated pressures as they arise; and the organization will be at a competitive disadvantage.

Formulating strategy involves:-

- Mission statement
- Defining aims/goals
- Objectives/targets
- Assessing external environment
- Industry analysis – life cycle
- Environmental forecasting
- Actual strategy formulation

### 1. Defining mission/purpose

The setting of the overall mission or purpose of the organisation raises fundamental issues and challenging questions such as: What is our purpose in this business i.e. what do we want to achieve for being in this business/offering this public service/running this charity? The whole purpose or mission statement is that it should not only set out key parameters of the organisations business but to stand the test of time. Mission statement is therefore a public statement on behalf of the organisation which sets out terms of the customer_s needs it intends to satisfy. A feature of a mission statement is that they are broad and elated with such generality that they may not make their point clearly known. These statements are intended to provide a clear vision to the organisation. Example of a mission statement from British Airways:- ―Our mission is to be the best and most successful company in the airline industry.‖

Example from Unilever (E. African Industry)―To provide quality, affordable, branded food, home and personal care products to consumers in East Africa.

2. **Defining strategic aims and goals**

The key aims or goals of the organisation usually embrace all the major units and functions of the organisation. They are usually intended to provide for medium term solutions to organisations problems. They are more finely focused statements of intention directed at those aspects of the organisations operations which are critical to its success. Such statements usually encompass product market or service, intentions, resourcing (people, plant, materials, funding etc.) the use of technology, quality standards and financial parameters.

Strategic goals and aims are formulated and reviewed during a period of 3-5 years.

Example of goals of British Airways
Our goals are to:-

be safe and secure airline
deliver strong and consistent performance
secure a leading share of air travel business worldwide with significant presence in all major geographic markets
provide overall superior service and good value for money in every market segment in which we compete
excel in anticipation and quickly respond to customer needs
to sustain a working environment that attracts, retains and develops committed employees who share in the success of the company.‖

**Objectives**

These are short term and specific intentions of various operational units of the organisation.

They are often called ―targets‖ and are the major key elements in short term plans. They are usually incorporated into the annual budget of the organisation. They represent the intended outcomes of the organisations efforts to meet the day to day needs of the customers and other stakeholders.

**Classification of objectives**

**Profitability**:- The primary objective or profit earning companies and is accepted asbeing growth in earnings per share. At the planning procedures the objective for earnings per share will need to be translated into targets for control linking sales, profit an capital employed. The company wants to survive so as to make a profit or to maximise the wealth of investors in the company i.e. shareholders.

**Survival**:- It is an implicit, overriding objective in every organisation even though it israrely talked about. The first six months in the life of a company are crucial:- its brands are unknown, its advertising campaign has a little probability of making any impact there are no repeat orders and the organisation structure will still be at its formative stage.

However survival at infancy is not guarantee to success. Economic recessions and activities of competitors will threaten an established company and may cause it to re-examine its capacity for long-term survival. Survival should not be at any cost especially when the asset bases has been shrinking as a consequence of high interest rates with no improvements in the foreseeable future or heavy losses. Under these circumstances its assets base will erode until it has zero value at which time it is likely to be technically insolvent.

**Customer satisfaction/create customers**:- The aim of the marketing function is to generate enough satisfied customers to ensure a profitable existence for a company by endeavouring to establish and then supply the needs of its target customers, rather than offer a product for which there is insufficient demand. Satisfaction increases as the quality increases and prices fall.

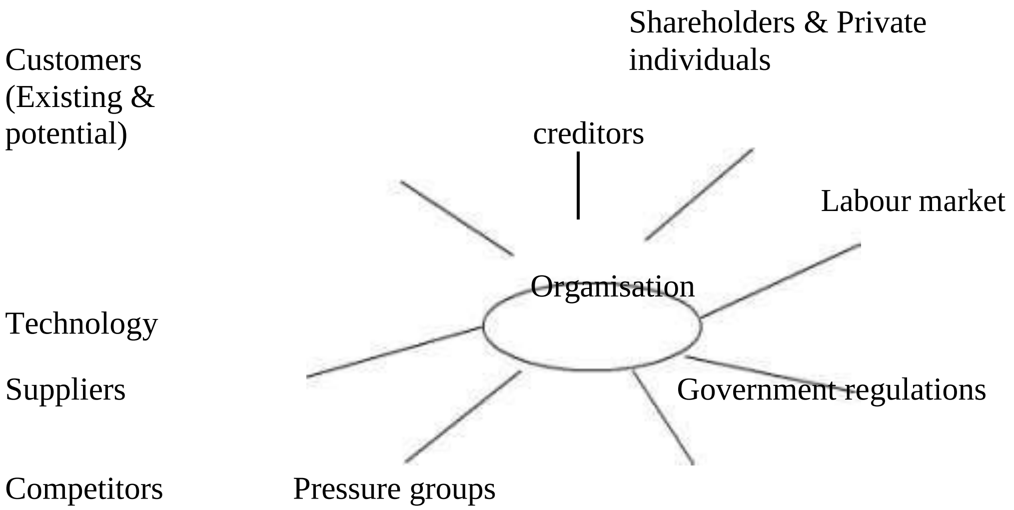
**Innovation:-** The board must determine whether it intends to lead in developing technology and products, to follow other companies or to design to customer needs. Its ability to innovate is governed by its technical and creative resources. Financial and physical resources: finance will be needed to make the other objectives possible and objectives under this reading will include:- the amount of capital to be raised from external sources and the form in which capital will be raised.

Manager performance and development:- This will cover issues such as: organisation and development

## 4. Assessing the External Environment

External environment helps strategy planners to identify key opportunities and threats in the external environment and to compare with organisations internal strengths and weaknesses (SWOT analysis)

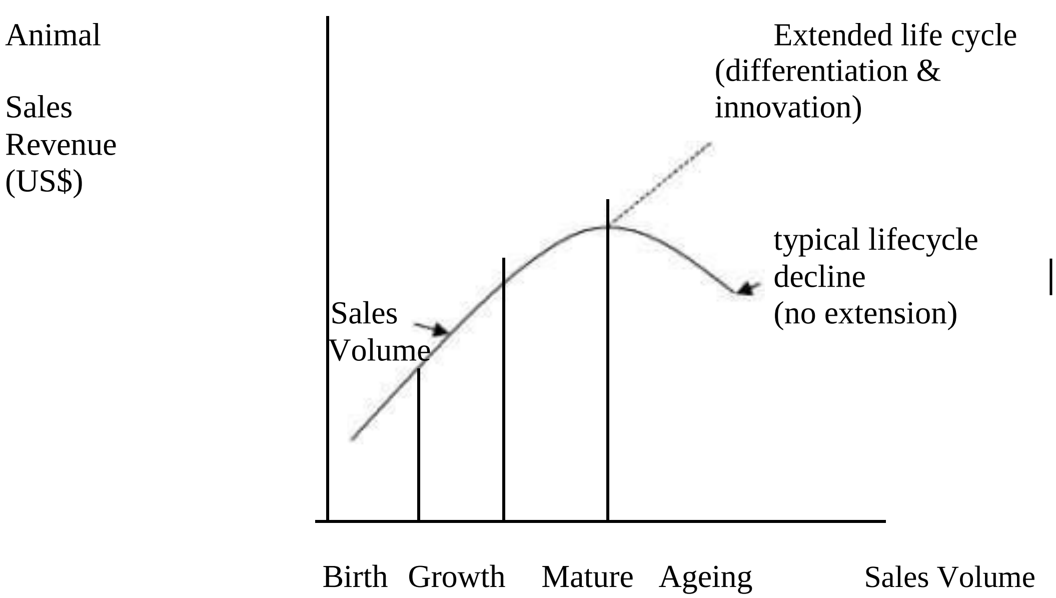
Thorough knowledge of external environment enables organisation to develop
effective competitive strategies.




**Industry analysis (Business Life Cycle)**

Ultimately the objective of assessing the internal & external environment is to identify where the business is currently positioned in its market inorder to be able to make strategic decisions about where it ought to be in the future. Such decisions can be improved if the management planners are aware of where the industry or business lies in relation to its life cycle.

**Basic firm/industry life cycle of Motor manufacturing**




The above model can be used for analysing the conditions that might be expected at each stage of the lifecycle. In the case of a mature industry such as the motor manufacturing it can be expected that competition will be intense, prices will be very competitive and profits will be lower than at the growth stage and finally the rates will show little increase. The strategic emphasis is likely to be on product differentiation and market segmentation to gain a competitive edge. Another key strategy is to reduce costs at all stages and to improve productivity.

**6. Environmental forecasting**

Strategic management involves making organisational decisions in conditions of considerable uncertainty. The result of such decisions can be failure of the business. Hence to reduce the uncertainty and risks attached to decisions about the future forecasting should be done together as much relevant information and data about the organisation itself. Main competitors and the rest of its external environment (world).

In strategic context forecasting refers to any attempt whether qualitative or quantitative and usually based on past performance to predict future outcomes and trends in the internal and external environment of an organisation inorder to limit the risks involved in formulating and implementing a strategy.

Strategic issues and areas requiring forecasting:-

**Organisational performance (past – current and future).**

Any assessment of organisational performance is likely to focus on the following:-

- Organisations market segments
- Product/service range
- Sales (by product, service, brand, market etc)
- Costs (production, sales and overheads)
- Research and development efforts
- Investment programmes
- Organisations structure
  - Management style (including delegation and control)
  - Personnel (Numbers, skills, training and effectiveness)
  - Management Accounting system
- · Financial management activities of the organisation

ii) Trends in the external political, economic, social cultural, technological, physical and competitive environment.

**Strategic forecasting techniques**

There are two methods:-

Quantitative techniques
Qualitative techniques

**Quantitative techniques**

Projections are based on numerical data such as statistics and accounting data often analysed by computer based model. Examples of quantitative techniques:-

**Budget forecasting:-** used by middle and senior managers. They attempt to quantify theirtarget for the coming year, estimate the cost and justify the results they want.

**Ratio analysis:-** involves the analysis of management and financial ratios for the purpose ofidentifying trends in key performance areas. A ratio signifies a quantifiable relationship often expressed as a percentage between the key aspects the key aspects of companies activities eg.

Rate of Return on Capital = <u>Profit before tax</u> x 100

Employed Capital employed

Current ratio = <u>Current Assets</u> Current liabilities

Computer modelling:- used in planning, design, control and review of large scale projects.

Time series analysis – projections may also be carried out based on past data of the organisation. In time series analysis, data eg. sales are plotted against time period eg. months, or years and then the ―bests fit‖ line is obtained showing a future trend in the predicted sales.

**2. Qualitative techniques**

Involves basing projections on explicit assumptions and individual judgment. Examples of qualitative methods:-

**Delphi techniques** –uses a panel of experts from within and outside the organisation. Theyindependently give their views which are discussed and included in key decisions for the future.

Brain storming – in this technique a group of people with knowledge in a particular problem are assembled and brainstorm inorder to predict the future.

**Scenario development** –due to lack of precision in forecasting several scenarios may bedeveloped each scenario providing a different set of assumptions about future events.

**Swot analysis** –involves judgmental predictions of trends of opportunities or threats in theenvironment and strengths and weaknesses of the organization

### 7. Actual strategy formulation

Strategy formulation can take place at more than one level in an organisation depending on its size. A large divisionalised company or diversified company for instance would have to plan strategy on at least 2 or 4 levels i.e. at corporate level covering the whole business network or group of business e.g . branches unit level covering the principal or strategic business unit which make up the organisation and functional level (the basic operating level) which may be product or service based. Only a small or medium sized business is likely to be able to rely on a corporate level approach.

**Model of strategic choice**

Environmental

Analysis

Chosen Strategy → Stakeholders satisfaction → Attainment of goals and aims

Goals & aims

( i.e. customers, shareholders,

suppliers etc)

↓ feedback

Redefinition of goals/aims

### 8.2.1 Making strategic choices

Formulating a strategy involves analysis of environment and matching the results to goals/aims of the organisation so that a strategic choice can be made from key alternative strategies. A basic model indicating the place of strategic choice in the overall process of strategy formulation may be given by the above figure. The model suggests that choices are made in the light of organisational goals and aims and the evaluations of its internal and external environment. The chosen strategies are intended to meet the principal goals of the organisation in terms of direct stakeholders satisfaction i.e. those who have a prime stake in the organisations results such as customers, shareholders or suppliers. The fact that some strategic choices are aimed at deflecting the competition (indirect stakeholders) is implied in the results to be achieved by direct stakeholders but it is not stated directly in this model. The extent to which goals are attained provides a feedback to the organisations senior management and may lead to appropriate definition of organisations goals/aims. This process can be repeated when new strategies have to be developed.

**Strategic Options Open To Business Organisations**

Business organisations have the following strategic options:-

Consolidation (i.e. strengthen its activities by following previous strategy).
Market penetration – (build on current position)
Market development _ (seeking new markets)
Product/service development i.e. developing new products/services
Price leadership – i.e. offering most competitive prices in the market
Differentiation – i.e. developing a product or service that is seen to be unique in the industry.
Niche strategy – (i.e. developing a distinctive marketing mix aimed at a specialists market)
Growth via acquisitions and joint ventures
Divestments i.e. selling off part of the business/subsidiary
Withdrawal i.e. selling up-entirely/closing down/liquidation.

The objective of these strategies (apart from withdraw) is twofold:-·
To ensure the general health and survival of the business
· To attain increased growth and prosperity.

**THREE ASPECTS OF STRATEGY FORMULATION**

The following three aspects or levels of strategy formulation, each with a different focus, need to be dealt with in the formulation phase of strategic management. The three sets of recommendations must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy, in the order given.

***Corporate Level Strategy:*** In this aspect of strategy, we are concerned with broad decisions about the total organization's scope and direction. Basically, we consider what changes should be made in our growth objective and strategy for achieving it, the lines of business we are in, and how these lines of business fit together. It is useful to think of three components of corporate level strategy: (a) growth or directional strategy (what should be our growth objective, ranging from retrenchment through stability to varying degrees of growth - and how do we accomplish this), (b) portfolio strategy (what should be our portfolio of lines of business, which implicitly requires reconsidering how much concentration or diversification we should have), and (c) parenting strategy (how we allocate resources and manage capabilities and activities across the portfolio -- where do we put special emphasis, and how much do we integrate our various lines of business).

***Competitive Strategy (often called Business Level Strategy):*** This involves deciding how the company will compete within each line of business (LOB) or strategic business unit (SBU).

***Functional Strategy:*** These more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity.

**CORPORATE LEVEL STRATEGY**

This comprises the overall strategy elements for the corporation as a whole, the grand strategy, if you please. Corporate strategy involves four kinds of initiatives:

* Making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.

* Initiating actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial, managerial, and other resources, or acquiring and/or merging other companies with an existing LOB.

* Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages -- especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers.

* Establishing investment priorities and moving more corporate resources into the most attractive LOB's.

It is useful to organize the corporate level strategy considerations and initiatives into a framework with the following three main strategy components: growth, portfolio, and parenting. These are discussed in the next three sections.

*What should be Our Growth Objective and Strategies?*

Growth objectives can range from drastic retrenchment through aggressive growth.

Organizational leaders need to revisit and make decisions about the growth objectives and the fundamental strategies the organization will use to achieve them. There are forces that tend to push top decision-makers toward a growth stance even when a company is in trouble and should not be trying to grow, for example bonuses, stock options, fame, ego. Leaders need to resist such temptations and select a growth strategy stance that is appropriate for the organization and its situation. Stability and retrenchment strategies are underutilized.

Some of the major strategic alternatives for each of the primary growth stances (retrenchment, stability, and growth) are summarized in the following three sub-sections.

**Growth Strategies**

All growth strategies can be classified into one of two fundamental categories: *concentration* within existing industries or *diversification* into other lines of business or industries. When a company's current industries are attractive, have good growth potential, and do not face serious threats, concentrating resources in the existing industries makes good sense. Diversification tends to have greater risks, but is an appropriate option when a company's current industries have little growth potential or are unattractive in other ways. When an industry consolidates and becomes mature, unless there are other markets to seek (for example other international markets), a company may have no choice for growth but diversification.

There are two basic concentration strategies, *vertical integration* and *horizontal growth*. Diversification strategies can be divided into *related* (or concentric) and *unrelated* (conglomerate) diversification. Each of the resulting four core categories of strategy alternatives can be achieved internally through investment and development, or externally through mergers, acquisitions, and/or strategic alliances -- thus producing eight major growth strategy categories.

Comments about each of the four core categories are outlined below, followed by some key points about mergers, acquisitions, and strategic alliances.

**1. Vertical Integration:** This type of strategy can be a good one if the company has a strong competitive position in a growing, attractive industry. A company can grow by taking over functions earlier in the value chain that were previously provided by suppliers or other organizations ("backward integration"). This strategy can have advantages, e.g., in cost, stability and quality of components, and making operations more difficult for competitors. However, it also reduces flexibility, raises exit barriers for the company to leave that industry, and prevents the company from seeking the best and latest components from suppliers competing for their business.

A company also can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers ("forward integration"). This strategy provides more control over such things as final products/services and distribution, but may involve new critical success factors that the parent company may not be able to master and deliver. For example, being a world-class manufacturer does not make a company an effective retailer.

Some writers claim that backward integration is usually more profitable than forward integration, although this does not have general support. In any case, many companies have moved toward less vertical integration (especially backward, but also forward) during the last decade or so, replacing significant amounts of previous vertical integration with outsourcing and various forms of strategic alliances.

**2. Horizontal Growth:** This strategy alternative category involves expanding the company's existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. It amounts to expanding sideways at the point(s) in the value chain that the company is currently engaged in. One of the primary advantages of this alternative is being able to choose from a fairly continuous range of choices, from modest extensions of present products/markets to major expansions -- each with corresponding amounts of cost and risk.

**3. Related Diversification (aka Concentric Diversification):** In this alternative, a company expands into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. This is often an appropriate corporate strategy when a company has a strong competitive position and distinctive competencies, but its existing industry is not very attractive.

**4. Unrelated Diversification (aka Conglomerate Diversification):** This fourth major category of corporate strategy alternatives for growth involves diversifying into a line of business unrelated to the current ones. The reasons to consider this alternative are primarily seeking more attractive opportunities for growth in which to invest available funds (in contrast to rather unattractive opportunities in existing industries), risk reduction, and/or preparing to exit an existing line of business (for example, one in the decline stage of the product life cycle). Further, this may be an appropriate strategy when, not only the present industry is unattractive, but the company lacks outstanding competencies that it could transfer to related products or industries. However, because it is difficult to manage and excel in unrelated business units, it can be difficult to realize the hoped-for value added.

**Mergers, Acquisitions, and Strategic Alliances:** Each of the four growth strategy categories just discussed can be carried out internally or externally, through mergers, acquisitions, and/or strategic alliances. Of course, there also can be a mixture of internal and external actions.

Various forms of strategic alliances, mergers, and acquisitions have emerged and are used extensively in many industries today. They are used particularly to bridge resource and technology gaps, and to obtain expertise and market positions more quickly than could be done through internal development. They are particularly necessary and potentially useful when a company wishes to enter a new industry, new markets, and/or new parts of the world.

Despite their extensive use, a large share of alliances, mergers, and acquisitions fall far short of expected benefits or are outright failures. For example, one study published in *Business Week* in 1999 found that 61 percent of alliances were either outright failures or "limping along." Research on mergers and acquisitions includes a Mercer Management Consulting study of all mergers from 1990 to 1996 which found that nearly half "destroyed" shareholder value; an A. T. Kearney study of 115 multibillion-dollar, global mergers between 1993 and 1996 where 58 percent failed to create "substantial returns for shareholders" in the form of dividends and stock price appreciation; and a Price-Waterhouse-Coopers study of 97 acquisitions over $500 million from 1994 to 1997 in which two-thirds of the buyer's stocks dropped on announcement of the transaction and a third of these were still lagging a year later.

Many reasons for the problematic record have been cited, including paying too much, unrealistic expectations, inadequate due diligence, and conflicting corporate cultures; however, the most powerful contributor to success or failure is inadequate attention to the merger integration process. Although the lawyers and investment bankers may consider a deal done when the papers are signed and they receive their fees, this should be merely an incident in a multi-year process of integration that began before the signing and continues far beyond.

**Stability Strategies**

There are a number of circumstances in which the most appropriate growth stance for a company is stability, rather than growth. Often, this may be used for a relatively short period, after which further growth is planned. Such circumstances usually involve a reasonable successful company, combined with circumstances that either permit a period of comfortable coasting or suggest a pause or caution. Three alternatives are outlined below, in which the actual strategy actions are similar, but differing primarily in the circumstances motivating the choice of a stability strategy and in the intentions for future strategic actions.

**1. Pause and Then Proceed:** This stability strategy alternative (essentially a timeout) may be appropriate in either of two situations: (a) the need for an opportunity to rest, digest, and consolidate after growth or some turbulent events - before continuing a growth strategy, or (b) an uncertain or hostile environment in which it is prudent to stay in a "holding pattern" until there is change in or more clarity about the future in the environment.

**2. No Change:** This alternative could be a cop-out, representing indecision or timidity in making a choice for change. Alternatively, it may be a comfortable, even long-term strategy in a mature, rather stable environment, e.g., a small business in a small town with few competitors.

**3. Grab Profits While You Can:** This is a non-recommended strategy to try to mask a deteriorating situation by artificially supporting profits or their appearance, or otherwise trying to act as though the problems will go away. It is an unstable, temporary strategy in a worsening situation, usually chosen either to try to delay letting stakeholders know how bad things are or to extract personal gain before things collapse. Recent terrible examples in the USA are Enron and WorldCom.

**Retrenchment Strategies**

**Turnaround:** This strategy, dealing with a company in serious trouble, attempts to resuscitate or revive the company through a combination of contraction (general, major cutbacks in size and costs) and consolidation (creating and stabilizing a smaller, leaner company). Although difficult, when done very effectively it can succeed in both retaining enough key employees and revitalizing the company.

**Captive Company Strategy:** This strategy involves giving up independence in exchange for some security by becoming another company's sole supplier, distributor, or a dependent subsidiary.

**Sell Out:** If a company in a weak position is unable or unlikely to succeed with a turnaround or captive company strategy, it has few choices other than to try to find a buyer and sell itself (or divest, if part of a diversified corporation).

**Liquidation:** When a company has been unsuccessful in or has none of the previous three strategic alternatives available, the only remaining alternative is liquidation, often involving a bankruptcy. There is a modest advantage of a voluntary liquidation over bankruptcy in that the board and top management make the decisions rather than turning them over to a court, which often ignores stockholders' interests.

*What Should Be Our Portfolio Strategy?*

This second component of corporate level strategy is concerned with making decisions about the portfolio of lines of business (LOB's) or strategic business units (SBU's), not the company's portfolio of individual products.

Portfolio matrix models can be useful in reexamining a company's present portfolio. The purpose of all portfolio matrix models is to help a company understand and consider changes in its portfolio of businesses, and also to think about allocation of resources among the different business elements. The two primary models are the BCG Growth-Share Matrix and the GE Business Screen (Porter, 1980, has a good summary of these). These models consider and display on a two-dimensional graph each major SBU in terms of some measure of its industry attractiveness and its relative competitive strength

The *BCG Growth-Share Matrix model* considers two relatively simple variables: growth rate of the industry as an indication of industry attractiveness, and relative market share as an indication of its relative competitive strength. The *GE Business Screen*, also associated with McKinsey, considers two composite variables, which can be customized by the user, for (a) industry attractiveness (e.g, one could include industry size and growth rate, profitability, pricing practices, favored treatment in government dealings, etc.) and (b) competitive strength (e.g., market share, technological position, profitability, size, etc.)

The best test of the business portfolio's overall attractiveness is whether the combined growth and profitability of the businesses in the portfolio will allow the company to attain its performance objectives. Related to this overall criterion are such questions as:

- Does the portfolio contain enough businesses in attractive industries?
- Does it contain too many marginal businesses or question marks?
- Is the proportion of mature/declining businesses so great that growth will be sluggish?
- Are there some businesses that are not really needed or should be divested?
- Does the company have its share of industry leaders, or is it burdened with too many businesses in modest competitive positions?
- Is the portfolio of SBU's and its relative risk/growth potential consistent with the strategic goals?
- Do the core businesses generate dependable profits and/or cash flow?
- Are there enough cash-producing businesses to finance those needing cash
- Is the portfolio overly vulnerable to seasonal or recessionary influences?
- Does the portfolio put the corporation in good position for the future?

It is important to consider diversification vs. concentration while working on portfolio strategy, i.e., how broad or narrow should be the scope of the company. It is not always desirable to have a broad scope. Single-business strategies can be very successful (e.g., early strategies of McDonald's, Coca-Cola, and BIC Pen). Some of the advantages of a narrow scope of business are: (a) less ambiguity about who we are and what we do; (b) concentrates the efforts of the total organization, rather than stretching them across many lines of business; (c) through extensive hands-on experience, the company is more likely to develop distinctive competence; and (d) focuses on long-term profits. However, having a single business puts "all the eggs in one basket," which is dangerous when the industry and/or technology may change. Diversification becomes more important when market growth rate slows. Building stable shareholder value is the ultimate justification for diversifying -- or any strategy.

*What Should Be Our Parenting Strategy?*

This third component of corporate level strategy, relevant for a multi-business company (it is moot for a single-business company), is concerned with how to allocate resources and manage capabilities and activities across the portfolio of businesses. It includes evaluating and making decisions on the following:

- Priorities in allocating resources (which business units will be stressed)
- What are critical success factors in each business unit, and how can the company do well on them
- Coordination of activities (e.g., horizontal strategies) and transfer of capabilities among business units
- How much integration of business units is desirable.

## COMPETITIVE (BUSINESS LEVEL) STRATEGY

In this second aspect of a company's strategy, the focus is on how to compete successfully in each of the lines of business the company has chosen to engage in. The central thrust is how to build and improve the company's competitive position for each of its lines of business. A company has competitive advantage whenever it can attract customers and defend against competitive forces better than its rivals. Companies want to develop competitive advantages that have some sustainability (although the typical term "sustainable competitive advantage" is usually only true dynamically, as a firm works to continue it). Successful competitive strategies usually involve building uniquely strong or distinctive competencies in one or several areas crucial to success and using them to maintain a competitive edge over rivals. Some examples of distinctive competencies are superior technology and/or product features, better manufacturing technology and skills, superior sales and distribution capabilities, and better customer service and convenience.

**Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value.** (Michael E. Porter)

**The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today.** (Gary Hamel & C. K. Prahalad)

We will consider competitive strategy by using Porter's four generic strategies (Porter 1980, 1985) as the fundamental choices, and then adding various competitive tactics.

*Porter's Four Generic Competitive Strategies*

He argues that a business needs to make two fundamental decisions in establishing its competitive advantage: (a) whether to compete primarily on price (he says "cost," which is necessary to sustain competitive prices, but price is what the customer responds to) or to compete through providing some distinctive points of differentiation that justify higher prices, and (b) how broad a market target it will aim at (its competitive scope). These two choices define the following four generic competitive strategies. which he argues cover the fundamental range of choices. A fifth strategy alternative (best-cost provider) is added by some sources, although not by Porter, and is included below:

**1. Overall Price (Cost) Leadership:** appealing to a broad cross-section of the market by providing products or services at the lowest price. This requires being the overall low-cost provider of the products or services (e.g., Costco, among retail stores, and Hyundai, among automobile manufacturers). Implementing this strategy successfully requires continual, exceptional efforts to reduce costs -- without excluding product features and services that buyers consider essential. It also requires achieving cost advantages in ways that are hard for competitors to copy or match. Some conditions that tend to make this strategy an attractive choice are:

- The industry's product is much the same from seller to seller
- The marketplace is dominated by price competition, with highly price-sensitive buyers
- There are few ways to achieve product differentiation that have much value to buyers
- Most buyers use product in same ways -- common user requirements
- Switching costs for buyers are low
- Buyers are large and have significant bargaining power

**2. Differentiation:** appealing to a broad cross-section of the market through offering differentiating features that make customers willing to pay premium prices, e.g., superior technology, quality, prestige, special features, service, convenience (examples are Nordstrom and Lexus). Success with this type of strategy requires differentiation features that are hard or expensive for competitors to duplicate. Sustainable differentiation usually comes from advantages in core competencies, unique company resources or capabilities, and superior management of value chain activities. Some conditions that tend to favor differentiation strategies are:

- There are multiple ways to differentiate the product/service that buyers think have substantial value
- Buyers have different needs or uses of the product/service
- Product innovations and technological change are rapid and competition emphasizes the latest product features
- Not many rivals are following a similar differentiation strategy

**3. Price (Cost) Focus:** a market niche strategy, concentrating on a narrow customer segment and competing with lowest prices, which, again, requires having lower cost structure than competitors (e.g., a single, small shop on a side-street in a town, in which they will order electronic equipment at low prices, or the cheapest automobile made in the former Bulgaria). Some conditions that tend to favor focus (either price or differentiation focus) are:

- The business is new and/or has modest resources
- The company lacks the capability to go after a wider part of the total market
- Buyers' needs or uses of the item are diverse; there are many different niches and segments in the industry
- Buyer segments differ widely in size, growth rate, profitability, and intensity in the five competitive forces, making some segments more attractive than others
- Industry leaders don't see the niche as crucial to their own success
- Few or no other rivals are attempting to specialize in the same target segment

**4. Differentiation Focus:** a second market niche strategy, concentrating on a narrow customer segment and competing through differentiating features (e.g., a high-fashion women's clothing boutique in Paris, or Ferrari).

**Best-Cost Provider Strategy:** (although not one of Porter's basic four strategies, this strategy is mentioned by a number of other writers.) This is a strategy of trying to give customers the best cost/value combination, by incorporating key good-or-better product characteristics at a lower cost than competitors. This strategy is a mixture or hybrid of low-price and differentiation, and targets a segment of value-conscious buyers that is usually larger than a market niche, but smaller than a broad market. Successful implementation of this strategy requires the company to have the resources, skills, capabilities (and possibly luck) to incorporate up-scale features at lower cost than competitors.

This strategy could be attractive in markets that have both variety in buyer needs that make differentiation common and where large numbers of buyers are sensitive to both price and value.

Porter might argue that this strategy is often temporary, and that a business should choose and achieve one of the four generic competitive strategies above. Otherwise, the business is stuck in the middle of the competitive marketplace and will be out-performed by competitors who choose and excel in one of the fundamental strategies. His argument is analogous to the threats to a tennis player who is standing at the service line, rather than near the baseline or getting to the net. However, others present examples of companies (e.g., Honda and Toyota) who seem to be able to pursue successfully a best-cost provider strategy, with stability.

*Competitive Tactics*

Although a choice of one of the generic competitive strategies discussed in the previous section provides the foundation for a business strategy, there are many variations and elaborations. Among these are various tactics that may be useful (in general, tactics are shorter in time horizon and narrower in scope than strategies). This section deals with competitive tactics, while the following section discusses cooperative tactics.

Two categories of competitive tactics are those dealing with timing (when to enter a market) and market location (where and how to enter and/or defend).

**Timing Tactics:** When to make a strategic move is often as important as what move to make. We often speak of *first-movers* (i.e., the first to provide a product or service), *second-movers* or rapid followers, and *late movers* (wait-and-see). Each tactic can have advantages and disadvantages.

Being a first-mover can have major strategic advantages when: (a) doing so builds an important image and reputation with buyers; (b) early adoption of new technologies, different components, exclusive distribution channels, etc. can produce cost and/or other advantages over rivals; (c) first-time customers remain strongly loyal in making repeat purchases; and (d) moving first makes entry and imitation by competitors hard or unlikely.

However, being a second- or late-mover isn't necessarily a disadvantage. There are cases in which the first-mover's skills, technology, and strategies are easily copied or even surpassed by later-movers, allowing them to catch or pass the first-mover in a relatively short period, while having the advantage of minimizing risks by waiting until a new market is established. Sometimes, there are advantages to being a skillful follower rather than a first-mover, e.g., when: (a) being a first-mover is more costly than imitating and only modest experience curve benefits accrue to the leader (followers can end up with lower costs than the first-mover under some conditions); (b) the products of an innovator are somewhat primitive and do not live up to buyer expectations, thus allowing a clever follower to win buyers away from the leader with better performing products; (c) technology is advancing rapidly, giving fast followers the opening to leapfrog a first-mover's products with more attractive and full-featured second- and third-generation products; and (d) the first-mover ignores market segments that can be picked up easily.

**Market Location Tactics:** These fall conveniently into offensive and defensive tactics. Offensive tactics are designed to take market share from a competitor, while defensive tactics attempt to keep a competitor from taking away some of our present market share, under the onslaught of offensive tactics by the competitor. Some offensive tactics are:

- *Frontal Assault:* going head-to-head with the competitor, matching each other in every way. To be successful, the attacker must have superior resources and be willing to continue longer than the company attacked.
- *Flanking Maneuver:* attacking a part of the market where the competitor is weak. To be successful, the attacker must be patient and willing to carefully expand out of the relatively undefended market niche or else face retaliation by an established competitor.

- *Encirclement:* usually evolving from the previous two, encirclement involves encircling and pushing over the competitor's position in terms of greater product variety and/or serving more markets. This requires a wide variety of abilities and resources necessary to attack multiple market segments.
- *Bypass Attack:* attempting to cut the market out from under the established defender by offering a new, superior type of produce that makes the competitor's product unnecessary or undesirable.
- *Guerrilla Warfare:* using a "hit and run" attack on a competitor, with small, intermittent assaults on different market segments. This offers the possibility for even a small firm to make some gains without seriously threatening a large, established competitor and evoking some form of retaliation.

Some Defensive Tactics are:

- *Raise Structural Barriers:* block avenues challengers can take in mounting an offensive
- *Increase Expected Retaliation:* signal challengers that there is threat of strong retaliation if they attack
- *Reduce Inducement for Attacks:* e.g., lower profits to make things less attractive (including use of accounting techniques to obscure true profitability). Keeping prices very low gives a new entrant little profit incentive to enter.

The general experience is that any competitive advantage currently held will eventually be eroded by the actions of competent, resourceful competitors. Therefore, to sustain its initial advantage, a firm must use both defensive and offensive strategies, in elaborating on its basic competitive strategy.

*Cooperative Strategies*

Another group of "competitive" tactics involve cooperation among companies. These could be grouped under the heading of various types of strategic alliances, which have been discussed to some extent under Corporate Level growth strategies. These involve an agreement or alliance between two or more businesses formed to achieve strategically significant objectives that are mutually beneficial. Some are very short-term; others are longer-term and may be the first stage of an eventual merger between the companies.

Some of the reasons for strategic alliances are to: obtain/share technology, share manufacturing capabilities and facilities, share access to specific markets, reduce financial/political/market risks, and achieve other competitive advantages not otherwise available. There could be considered a continuum of types of strategic alliances, ranging from: (a) mutual service consortiums (e.g., similar companies in similar industries pool their resources to develop something that is too expensive alone), (b) licensing arrangements, (c) joint ventures (an independent business entity formed by two or more companies to accomplish certain things, with allocated ownership, operational responsibilities, and financial risks and rewards), (d) value-chain partnerships (e.g., just-in-time supplier relationships, and out-sourcing of major value-chain functions).

## FUNCTIONAL STRATEGIES

Functional strategies are relatively short-term activities that each functional area within a company will carry out to implement the broader, longer-term corporate level and business level strategies. Each functional area has a number of strategy choices, that interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies: shorter time horizon, greater specificity, and primary involvement of operating managers.

A few examples follow of functional strategy topics for the major functional areas of marketing, finance, production/operations, research and development, and human resources management. Each area needs to deal with sourcing strategy, i.e., what should be done in-house and what should be outsourced?

Marketing strategy deals with product/service choices and features, pricing strategy, markets to be targeted, distribution, and promotion considerations. Financial strategies include decisions about capital acquisition, capital allocation, dividend policy, and investment and working capital management. The production or operations functional strategies address choices about how and where the products or services will be manufactured or delivered, technology to be used, management of resources, plus purchasing and relationships with suppliers. For firms in high-tech industries, R&D strategy may be so central that many of the decisions will be made at the business or even corporate level, for example the role of technology in the company's competitive strategy, including choices between being a technology leader or follower. However, there will remain more specific decisions that are part of R&D functional strategy, such as the relative emphasis between product and process R&D, how new technology will be obtained (internal development vs. external through purchasing, acquisition, licensing, alliances, etc.), and degree of centralization for R&D activities. Human resources functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval. Examples are job categories and descriptions; pay and benefits; recruiting, selection, and orientation; career development and training; evaluation and incentive systems; policies and discipline; and management/executive selection processes.

## CHOOSING THE BEST STRATEGY ALTERNATIVES

Decision making is a complex subject, worthy of a chapter or book of its own. This section can only offer a few suggestions. Among the many sources for additional information, I recommend Harrison (1999), McCall & Kaplan (1990), and Williams (2002). Here are some factors to consider when choosing among alternative strategies:

- It is important to get as clear as possible about objectives and decision criteria (what makes a decision a "good" one?)
- The primary answer to the previous question, and therefore a vital criterion, is that the chosen strategies must be effective in addressing the "critical issues" the company faces at this time
- They must be consistent with the mission and other strategies of the organization

- They need to be consistent with external environment factors, including realistic assessments of the competitive environment and trends
- They fit the company's product life cycle position and market attractiveness/competitive strength situation
- They must be capable of being implemented effectively and efficiently, including being realistic with respect to the company's resources
- The risks must be acceptable and in line with the potential rewards
- It is important to match strategy to the other aspects of the situation, including: (a) size, stage, and growth rate of industry; (b) industry characteristics, including fragmentation, importance of technology, commodity product orientation, international features; and (c) company position (dominant leader, leader, aggressive challenger, follower, weak, "stuck in the middle")
- Consider stakeholder analysis and other people-related factors (e.g., internal and external pressures, risk propensity, and needs and desires of important decision-makers)
- Sometimes it is helpful to do scenario construction, e.g., cases with optimistic, most likely, and pessimistic assumptions.

**Some troublesome strategies to avoid or use with caution**

**Follow the Leader:** when the market has no more room for copycat products and look-alike competitors. Sometimes such a strategy can work fine, but not without careful consideration of the company's particular strengths and weaknesses. (e.g., Fujitsu Ltd. was driven since the 1960s to catch up to IBM in mainframes and continued this quest even into the 1990s after mainframes were in steep decline; or the decision by Standard Oil of Ohio to follow Exxon and Mobil Oil into conglomerate diversification)

**Count on Hitting Another Home Run:** e.g., Polaroid tried to follow its early success with instant photography by developing "Polavision" during the mid-1970s. Unfortunately, this very expensive, instant developing, 8mm, black and white, silent motion picture camera and film was displayed at a stockholders' meeting about the time that the first beta-format video recorder was released by Sony. Polaroid reportedly wrote off at least $500 million on this venture without selling a single camera.

**Try to do everything:** establishing many weak market positions instead of a few strong ones

**Arms Race:** Attacking the market leaders head-on without having either a good competitive advantage or adequate financial strength; making such aggressive attempts to take market share that rivals are provoked into strong retaliation and a costly "arms race." Such battles seldom produce a substantial change in market shares; usual outcome is higher costs and profitless sales growth

**Put More Money On a Losing Hand:** one version of this is allocating R&D efforts to weak products instead of strong products

**Over-optimistic Expansion:** Using high debt to finance investments in new facilities and equipment, then getting trapped with high fixed costs when demand turns down, excess capacity appears, and cash flows are tight

**Unrealistic Status-Climbing:** Going after the high end of the market without having the reputation to attract buyers looking for name-brand, prestige

**Selling the Sizzle Without the Steak:** Spending more money on marketing and sales promotions to try to get around problems with product quality and performance. Depending on cosmetic product improvements to serve as a substitute for real innovation and extra customer value.

## STRATEGIC OPTIONS

### What is it?

Strategic options are creative alternative action-oriented responses to the external situation that an organisation (or group of organisations) faces. Strategic options take advantage of facts and actors, trends, opportunities and threat of the outside world. Strategic options can be identified after an institutional assessment, keeping in mind the aspirations (basic question) of an organisation. The tool ‗Strategic options' helps to identify and make a preliminary screening of alternative strategic options or perspectives.

### Process

The identification of strategic options is a creative process that can be done in small (sub-) groups of no more than eight persons; meanwhile taking care that hierarchy does not restrict people to actively contribute ideas.

### Groundwork

The formulation of strategic options can take place after institutional analysis, and after (or in combination with) reaching clarity on the mission and aspirations of the organisation. In other words, this tool formulates possible responses to the opportunities and threats you identified by making an environmental scan, institutiogramme, coverage matrix and/or stakeholder analysis.

### Steps to develop strategic options (SOP)

0. **Assess the external context**, in terms of opportunities and threats (e.g. fromenvironmental scan, institutiogramme, coverage matrix and/or stakeholder analysis)

1. **Prioritise and cluster** opportunities and threats
   - If you have more than 15 of each, prioritise (e.g. through voting)
   - Brainstorm which opportunities and threats can be related to each other

*Who should participate in the following step? It is often hard to take step 2 with a group of 15 or more people, although that is ideal. Alternatively a core team of 1-5 people can do step 2. However, a process facilitator should* <u>*not*</u> *do it alone in a break.*

2. **Develop strategic options**. Formulate strategic options that:

   - Respond to one or more opportunities and/or threats
   - Are actions (or results) related to output, input, mission, vision and/or relations
   - Are straightforward (clearly relate to opportunities and/or threats), but
   - Are also creative (there may be more than the most obvious response. And you may consider new solutions that respond to new trends, opportunities, and threats)

   - You may develop several options relating to the same opportunity or threat
   - For each threat or opportunity try to formulate at least one strategic option

3. **Rate the options** in terms of *relevance* to (note that this is only a preliminary selection) in the SOP matrix

   - The criteria in your BQ, and/or
   - The mission and aspiration of the organisation

   Note: Rating should *not* be done using the criterion of *feasibility*, as matching external strategic options with internal possibilities happens only during SOR

   Rating can be done individually (give each person around 5 votes) or jointly. Each SO may be given 0-3 _votes‘. Select the 3-6 most relevant options to be further considered during strategic orientation

4. **Follow-up**

   - Implement internal organisational analysis of critical elements

Strategic orientation (SOR), the final selection of a (set of) strategic options

## COMPETITOR ANALYSIS

Organizations must operate within a competitive industry environment. They do not exist in vacuum. Analyzing organization‘s competitors helps an organization to discover its weaknesses, to identify opportunities for and threats to the organization from the industrial environment. While formulating an organization‘s strategy, managers must consider the strategies of organization‘s competitors. Competitor analysis is a driver of an organization‘s strategy and effects on how firms act or react in their sectors. The organization does a competitor analysis to measure / assess its standing amongst the competitors.

**Competitor analysis begins with identifying present as well as potential competitors**. It portrays an essential appendage to conduct an industry analysis. An industry analysis gives information regarding probable sources of competition (including all the possible strategic actions and reactions and effects on profitability for all the organizations competing in the industry). However, a well-thought competitor analysis permits an organization to concentrate on those organizations with which it will be in direct competition, and it is especially important when an organization faces a few potential competitors.

Michael Porter in **Porter's Five Forces Model** has assumed that the competitive environment within an industry depends on five forces- Threat of new potential entrants, Threat of substitute product/services, bargaining power of suppliers, bargaining power of buyers, Rivalry among current competitors. These five forces should be used as a conceptual background for identifying an organization‘s competitive strengths and weaknesses and threats to and opportunities for the organization from it‘s competitive environment.

The main **objectives of doing competitor analysis** can be summarized as follows:

- ✓ To study the market;
- ✓ To predict and forecast organization‘s demand and supply;
- ✓ To formulate strategy;
- ✓ To increase the market share;
- ✓ To study the market trend and pattern;
- ✓ To develop strategy for organizational growth;
- ✓ When the organization is planning for the diversification and expansion plan;
- ✓ To study forthcoming trends in the industry;
- ✓ Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;
- ✓ Insight into future competitor strategies may help in predicting upcoming threats and opportunities.

Competitors should be analyzed along various dimensions such as their size, growth and profitability, reputation, objectives, culture, cost structure, strengths and weaknesses, business strategies, exit barriers, etc.

**What is Competitive Advantage in the Field of Strategic Management?**

**What is Competitive Advantage?**

It is a truism that strategic management is all about gaining and maintaining competitive advantage. The term can be defined to mean ―anything that a firm does especially well when compared with rival firms‖. Note the emphasis on comparison with rival firms as competitive advantage is all about how best to best the rivals and stay competitive in the market.

**Competitive advantage accrues to a firm when it does something that the rivals cannot do or owns something that the rival firms desire**. For instance, for some firms, competitive advantage in these recessionary times can mean a hoard of cash where it can buy out struggling firms and increase its strategic position. In other cases, competitive advantage can mean that a firm has lesser-fixed assets when compared to rival firms, which is again a plus in an economic downturn.

### What is Sustained Competitive Advantage?

We have defined what competitive advantage is as it relates to strategic management and the sources of competitive advantage differing from firm to firm. However, a firm can have a source of competitive advantage for only a certain period because the rival firms imitate and copy the successful firms' strategies leading to the original firm losing its source of competitive advantage over the longer term. Hence, **it is imperative for firms to develop and nurture sustained competitive advantage**.

This can be done by:

- Continually adapting to the changing external business landscape and matching internal strengths and capabilities by channeling resources and competencies in a fluid manner.
- By formulating, implementing, and evaluating strategies in an effective manner which make use of the factors described above.

The fact that firms lose their sources of competitive advantage over the longer term is borne out by statistics that show that the top three broadcast networks in the United States had over 90 percent market share in 1978 which has now come down to less than 50 percent.

### The Advent of the Internet and Competitive Advantage

With the advent of the internet, competitive advantage and the gaining of it has become easier as firms directly sell to the consumers and interlink the suppliers, customers, creditors, and other stakeholders into its value chain. Because of the removal of intermediaries, firms can reduce costs and improve profitability. Essentially, the internet has changed the rules of the game and hence sources of competitive advantage in this digital era are now about how well firms utilize the digital platform and social media to gain advantage over their rivals.

### Closing Thoughts

Finally, competitive advantage has to be earned, gained, and defended as the preceding discussion shows. Hence, those firms that are agile and responsive to changing market conditions and whose internal capabilities are aligned with the external opportunities are those who would survive in the brutal business landscape of the 21st century. As can be seen from the characterization of competitive advantage, it is ethereal and subject to change and hence firms must always been on the lookout for newer sources of competitive advantage and be alert for competitors' moves

## Human, Social, and Intellectual Capital as a Means of Competitive Advantage

### Introduction: Why Should Firms and Nations Invest in Human, Social, and Intellectual Capital

We often hear economists and management experts exhorting nations and firms to invest in human, social, and intellectual capital. these calls range from asking governments to set aside substantial amounts of money to educate and skill the workforce as well as asking the firms and governments to create a web of social relationships in addition to moving up the value curve by investing in research and development. Before we launch into a discussion about how these measures would benefit nations and firms, we should first define what is meant by human, social, and intellectual capital.

In the same manner in which financial capital and physical infrastructure are the factors of production, a skilled workforce is a vital component and determinant of a firm‘s success. This means that firms need workers who are educated and skilled and are employable and efficient. Economists and management experts talk about this human capital. In the same manner in which an educated and skilled workforce raises the productivity of firms, nations also benefit from having a ready pool of workers who are skilled and capable. Just as firms need to hire these workers, it is upon the nation to provide them the basic education and skills both through subsidized education and through the provision of skills through vocational training or teaming up with the private sector in a PPP (Public Private Partnership) model to impart education to the workers.

Next, social capital is what is the result of the networks of relationship between individuals, communities, and the ties that bind them in the broader society. You might ask as to why it is important for firms and nations to have social capital in addition to human capital. The answer is that just as the firms need educated and skilled workers, the broader society to be healthy and well functioning needs workers and individuals to be tightly knit into the fabric of society. This social capital leads to less crime, more productivity, more efficiency, and the formation of communities that are self-sustaining and which are incubators of physically, mentally, and emotionally healthy and intelligent individuals.

Third, just as human capital and social capital lead to better productivity and a workforce that is efficient, the next evolutionary step for firms and nations once they have actualized human and social capital is through moving up the value chain by filing patents, encouraging research, and innovating as well as leading to the creation of an economy that is characterized by these aspects. Therefore, it is important to note that in addition to human and social capital, intellectual capital is also needed for firms and nations to forge ahead in the race to deliver and actualize superior economic value.

As can be seen from the fact that human capital leads to higher productivity and efficiency and social capital leads to emotionally intelligent workers, intellectual capital leads economies and nations into the orbit where they can be challenged only by those competitors who have mastered all the three aspects of evolutionary value creation. Indeed, one of the reasons (as we shall discuss in detail in the next section) for the relative ascendance of the west over the east and which continue s to this day is that the former have successfully invested in these forms of capital whereas the latter are playing catch-up and are now trying to emulate them in their quest for economic growth.

### Trajectories of Firms and Nations That Have Invested in These Capital Aspects

Why do Google and Microsoft in addition to AT&T, 3M, and Apple remain so profitable and competitive? Why are some firms such as these more successful in generating patents and innovating better than the rest of the competition? Further, why does Facebook generate such valuations and is considered as one of the greatest ideas apart from the Smartphones and Search Engines and the invention of the Personal Computer? The answers to all these questions lies in the fact that these firms were able to first invest in their workforce or the formation and incubation of human capital, next, they were able to leverage the college like atmosphere and the free flowing ideas generated by their workforce which is the social capital and third, these firms were able to move up the curve and indeed, continue moving up the curve to reap the benefits of intellectual capital that follows from the first two forms of capital.

Similarly, why is the United States such a dominant force in the global economy whereas even China and India that have large populations of educated workers still are unable to challenge its dominance? The reason for this is that the United States and largely, Europe have substantially invested in educating and training apart from skilling their populations over the last century and half and hence, are now reaping the benefits of such investments. Moreover, by creating a system that encourages creativity and innovation instead of stifling them, these countries have managed to move up the value curve and stay there. In addition, whenever they felt that their economic dominance is under threat, these nations have always found better ideas to become more efficient as can be seen from the Offshoring of manufacturing to China and back office work to India. In this manner, they have retained their focus on value creation using the three forms of capital in a way in which the rest of the world is unable to do so even now.

As individuals, we too can ensure that we do our bit to accelerate the formation of these forms of capital and this is through investing in oneself, forming networks with our peers, coworkers, families, and communities so that we become more emotionally intelligent, and then by continuously improving and leaving nothing to chance or becoming complacent thereby being in a creative mode where ideas flow freely. Further, we can all become wiling partners in the development of these forms of capital by making conscious choices that lead us to better outcomes for everyone concerned.

### Catch-Up and Moving up the Curve

Having considered the successes of firms that invest in these forms of capital, we now turn to how competitors and countries in the developing world can catch up the dominant firms and countries. The first step is to provide universal education without discriminating based on class, gender, or race, as well as through substantially revamping the education system so that instead of rote learning, innovation and creativity are encouraged. Next, instead of forming clan based and class based relationships alone, there must be an emphasis on forming networks where class barriers, gender differences, and ethnic and racial factors are nonexistent meaning that social capital must be incubated that is free from the narrow constraints imposed by these elements. Third, governments must invest in research and development and encourage highly skilled scientists and researchers to continue their pioneering work instead of discouraging and frustrating them, which as often happens, in Asian countries, leads to these individuals seeking employment and greener pastures in the West.

Though this section sounds like an idealist rant, some of these measures have already been put in place in China, South East Asia, and to a lesser extent in Latin America. Therefore, it is indeed the case that the firms and the economies of these nations are emerging as challengers to the Western dominance, which is not surprising considering the trajectory of value creation. Further, some Indian companies have also succeeded in actualizing these forms of capital though the overall record leaves much to be desired. Indeed, it is the case that when India starts building these assets, it can emerge as a potent force to be reckoned with.

## Conclusion

Finally, human, social, and intellectual capital differ from physical and financial capital in the sense that they can be incubated even by those with less of the latter as hard work, determination, and a culture of openness can all lead to value creation. Therefore, the clear conclusion is that we do not need Billions of Dollars in investment and just by making use of the available resources, firms and nations can indeed prosper in the same manner in which the Western countries and their peoples have enjoyed a higher standard of living.

# CHAPTER SEVEN

# STRATEGY IMPLEMENTATION

**Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives**. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Follwoing are the main **steps in implementing a strategy:**

- ✓ Developing an organization having potential of carrying out strategy successfully.
- ✓ Disbursement of abundant resources to strategy-essential activities.
- ✓ Creating strategy-encouraging policies.
- ✓ Employing best policies and programs for constant improvement.
- ✓ Linking reward structure to accomplishment of results.
- Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

**STRATEGY IMPLEMENTATION**
**Model of strategy implementation**

Strategic choice (The strategy)

Effective organisational Structure (framework)

Adequate managerial authority and power (leadership)

Financial and physical resources (Resources)

Organisational and Individual values (culture)

Personnel skills and development (Resources)

Strategy Implementation

Implementation of a strategy is concerned with key decisions that need to be made by managers and provision of necessary facilities if the strategic choices made are to be put into effect or operationalised.

An organisation may use the following methods to implement its strategies.

Adequate allocation of resources (both human and physical to business units/departments concerned)
Effective organisational structure to facilitate co-ordination and control Strong managerial leadership (adequate authority and power)
Effective communication to employees on the procedures required to implement the strategy.
Effective monitoring system budgetary controls
Effective recruitment and staff training and development i.e. the organisation should hire highly qualified personnel and equip them with the training needed for effective implementation of strategy.
Strong positive organisational and individual values (culture). This will create the strong will for the pursuit of goals an objectives.

Employee motivation through financial and non-financial reward.

## Organization Structure, Distinctive Competences, and Resource Allocation

Just being able to conceits bold new strategies is not enough. The general manager must also be able to translate his or her strategic vision into concrete steps that "get things done‖

Strategy formulation entails heavy doses of vision, analysis, and entrepreneurial judgment, successful strategy implementation depends on the skills of working through others, organizing, motivating, culture-building, and creating stronger fits be-teen strategy and how the organization operates Ingrained behavior docs not change just because a new strategy has been announced.

Practitioners emphatically state that it is a whole lot easier to develop a sound strategic plan than it is to '*make it happen." Let s look at what strategy implementation involves:

What makes the job of the strategy manager so complicated when it comes to implementation is the number of tasks involved and the variety of ways to approach each task. Strategy implementation has to be tailored to the organization's overall condition and selling, to the nature of the strategy and the amount of strategic change involved and to the manager's own skills, style, and methods.

Four broad areas stand out:

1. Performing the recurring administrative tasks associated with strategy implementation.
2. Creating "fits" between strategy and the various internal "ways of doing things" in order to align the whole organization behind strategy accomplishment.
3 Figuring out an agenda and a set of action priorities that matches[1] up well with the organization's overall situation and the context of the- sluing in which implementation must take place.
4. What managerial approach and leadership style to adopt in inducing the needed organizational changes.

The strategy implementers challenge in performing these tasks is to bring (he organization's conduct of internal operations into good alignment with strategy and to unite the total organization- behind strategy accomplishment. The implemented job is one of building such enthusiasm and commitment up and down the ranks that a virtual organization wide crusade emerges to carry out the chosen strategy.

Strategy-supportive matches arc needed with organizational skills \ and capabilities, functional area activities, organization structure, reward systems, and incentives, policies and procedures, information systems and control mechanisms, budgets and programs, and shared values and cultural norms.

## The Administrative Aspects of Strategy Implementation

The Manager's role in the implementation process is to leading and keynoting the tone: pace, and style of strategy implementation. There are many ways lo proceed. A strategy implementer can opt for an active, visible role or a low-key, behind the scenes role. He or she can elect to make decisions authoritatively or on the basis of consensus, lo delegate much or little, to be deeply involved in the detail* of implementation or to remain aloof from the day-to-day problems. It is up to the strategy implementer to decide whether to proceed swiftly (launching implementation initiatives on many fronts) or *lo* move deliberately, content with gradual progress over a long period.

To some extent, therefore, each strategy implementation situation is unique enough [o require the strategy manager to tailor his or her action agenda to fit the specific 'organizational environment at hand- This forces the manager to be conscious of all that strategy implementation involves and to diagnose carefully the action priorities and in what sequence things need to be done. The manager's role is thus all-important His or her agenda for action and conclusions about how hard and how fast to push for change are decisive in shaping the character of implementation and moving the process along.

Successful strategy execution depends greatly on good internal organization and competent personnel. Building a capable organization is thus always a top strategy implementation priority. Three organizational issues stand out as dominant:

- Developing an internal organization structure that is responsive to the needs of
- Developing the skills and distinctive competences in which the strategy grounded and seeing that the organization has the managerial talents, technical expertise, and competitive capabilities it needs.
- Selecting people for key positions.

**Matching Organization Structure to Strategy**

The following five-sequence procedure serves as a useful guide for fitting structure to strategy:

- ➢ Pinpoint the key functions and tasks requisite for successful strategy execution
- ➢ Reflect on how the strategy-critical functions and organizational units relate to those that are routine and to those that provide staff support-
- ➢ Make strategy-critical business units and functions the main organizational building blocks.
- ➢ Determine the degrees of authority needed to manage each organizational unit, bearing in mind both the benefits and costs of decentralized decision making.
- ➢ Provide for coordination among the various organizational units.

**1.** Pinpoint the key functions and tasks requisite for successful strategy execution

In any organization, some activities and skills are always more critical to strategic success than others are.

The strategy-critical activities vary according to the particulars of a firm's strategy and competitive requirements.

To help identify what an organization's strategy-critical activities are, two questions can usefully be posed: "What functions have to be performed, extra well and on lime for the strategy to succeed?" and "In what areas would mal performance seriously endanger strategic success[1]?"'The answers to these two questions should point squarely *at* what activities and skills are crucial and where to concentrate organization-building efforts

**2**. Understanding the Relationships among Activities

Activities can be related by [he flow of material through the production process, the type of customer served, the distribution channels used, the technical skills and know-how needed to perform them, a strong need to centralize authority over them, the sequence in which tasks must be performed, and geographic location, to mention some of the most obvious ways. Such relationships are important because one (or more) of the interrelationships usually become the basis for grouping activities into organizational units. If the needs of strategy are to drive organization design, then the relationships to look for are those that link one piece of the strategy to another.

**3.** Grouping Activities into Organization Units

If activities crucial to strategic success are to get the attention and visibility they merit, then they have to be a prominent part of the organizational scheme.

When key functions and critical tasks take a backseat to less important activities. the politics *of* organizational budget making usually leads to them being given fewer resources and accorded less significance than they actually have. On the other hand, when they form the core of the whole organization structure, their role and power in the overall scheme of things is highlighted and institutionalized. Senior managers can seldom give a stronger signal as to what is strategically important than by making key function and critical skills the most prominent organizational building blocks and, further, assigning them a high position in the organizational pecking order.

**4.** Determining the Degree of Authority and independence to Gave Each Unit

Activities and organizational units with a key role in strategy execution should not made subordinate to routine and non-key activities. Revenue-producing and results-producing activities should not made subordinate to internal support or staff functions. With few exceptions, decisions should delegate to those managers closest to the scene of the action. Corporate-level authority over operating decisions at the business-unit level and below should held to a minimum. The crucial administrative skill is selecting strong managers to head up each unit and delegating them enough authority to formulate and execute an appropriate strategy for their unit.

**5.** Providing for Coordination among the Units

Providing for coordination of the activities of organizational units is accomplished mainly through positioning them in the hierarchy of authority. Managers higher up in the pecking order generally have authority over more organizational units and thus the power to coordinate, integrate, and otherwise arrange for the cooperation of the units under their supervision. The chief executive officer, to chief operating officer, and business-level managers are, of course central points of coordination because they have broad authority. Besides positioning organizational units along the vertical scale of managerial authority, coordination of strategic efforts can also achieved through informal meetings, project teams, special task fortes, standing committees, formal strategy reviews, and annual strategic planning and budgeting cycles. Additionally, the formulation of the strategic plan itself serves a coordinating role; the whole process of negotiating and deciding on the objectives and strategies of each organizational unit and making sure that related activities mesh suitably help coordinate operations, across organizational units.

**How Structure Evolves as Strategy Evolves: The Stages Model**
Four distinct stages of strategy-related organization structure have singled out:

***Stage1*** Stage 1 organizations, are small, single-business enterprises managed by one person. The owner-entrepreneur has close daily contact with employees and each phase of operations. Most employees report directly to the owner, who mates all the pertinent decisions regarding mission, objectives, strategy, and daily operations.

**Stage II** organizations differ from Stage I enterprises in one essential aspect: an increased scale and scope of operations force a transition from one-person management to group management.

**Stage III** consists of organization whose operations, though concentrated in a single field or product line, are scattered over a wide geographical area and large enough to justify having geographically decentralized operating units. These units all report to corporate headquarters and conform to corporate policies, but they are given the flexibility to tailor their unit's strategic plan to meet the specific needs of each respective geographic area. Ordinarily, each of the geographic operating units Of a Stage III Organization is structured along functional lines.

The key difference between Stage II and Stage III, however, is that while the functional units of a Stage II organization stand or fall together (in that they are built around one business and one end market), the geographic operating units of a Stage III firm can stand alone (or nearly so) in the sense that the operations in each geographic unit are not dependent on those in other areas. Typical firms in this category are breweries, cement companies, and steel mills having production capacity and sales organizations m several geographically separate market areas.

**Stage IV** includes large, diversified firms decentralized by line of business. Typically, each separate business unit is headed by a general manager who has profit-and-loss responsibility and whose authority extends across all of the unit's functional areas except, perhaps, accounting and capital investment (both of which are traditionally subject to corporate approval). Both business strategy decisions and operating decisions are concentrated at the line-of-business level rather than at the corporate level

**The Strategy-Related Pros and Cons of Alternative Organization Forms**

There are essentially five strategy-related approaches to organization:
(1) Functional specialization,
(2) Geographic organization,
(3) decentralized business divisions,
(4) Strategic business units, and
(5) Matrix structures featuring dual lines of authority and strategic priority.

**The Functional Organization Structure**
Generally speaking- organizing by functional specialties promotes full utilization of the most up-to-date technical skills and helps a business capitalize on the efficiency gains resulting from use of [hose technical skills; it also helps a business capitalize an the efficiency gains resulting from the use of specialized manpower, faculties, and equipment. These are strategically important considerations for single-business organizations, dominant-product enterprises, and vertically integrated firms, and account for why they usually have some kind of centralized, functionally specialized structure.

**Geographic Forms of Organization**

Used by large-scale enterprises whose strategies need to be tailored to fit the particular needs and features of different geographical areas.

In the private sector, a territorial structure is typically utilized by chain store

retailers, power companies, cement firms, and dairy products enterprises. In the public sector, such organizations as the Internal Revenue Service, the Social Security Administration, the federal courts, the U.S. Postal Service, the state troopers, and the Red Cross have adopted territorial "structures in order to be directly accessible to geographically dispersed clients.

**Decentralized Business Units**

Grouping activities along business and product lines has been a clear-cut trend among diversified enterprises for the past half-century, beginning with the pioneering efforts of Du Pont and General Motors in

the 1920s. Separate business/product divisions emerged because diversification made. a functionally specialized manager's job incredibly complex

Strategy implementation is facilitated by grouping key activities belonging to the same business under one organizational roof, thereby creating line-of-business units (which then can be subdivided into whatever functional subunits suit the key activities/ critical tasks makeup of the business}. The outcome is not only a structure, which fits strategy, but also a structure that makes the jobs of managers more doable. The creation of separate business units is then accomplished by decentralizing authority over the unit to the business-level manager. The approach, very simply, is to put entrepreneurial general managers in charge of the business unit, giving them enough authority to formulate and implement the business Strategy chat they deem appropriate, motivating them with incentives, and then holding than accountable for the results they produce. However, when a strung strategic fit exists across related business units, it can be tough to get autonomy-conscious business-unit managers to cooperate in coordinating and snaring related activities. They are prone to argue long and hard about "turf" and about held accountable for activities not totally under their control.

**Strategic Business Units**

A strategic business unit (SBU) is a grouping of business units based on some important strategic elements common to each; the possible elements of relatedness include an overlapping set of competitors, a closely related strategic mission, a common need to compete globally, an ability to accomplish integrated strategic planning, common key success factors, and technologically related growth opportunities.

**Matrix Forms of Organization**

A matrix organization is a structure with two for more) channels of command, two lines of budget authority, and two sources of performance and reward. The key feature of the matrix is that product (or business) and functional lines of authority are overlaid (to form a matrix or grid), and managerial authority over the activities in each unit/cell of the matrix is shared between the product manager and functional manager.

**Selecting People for Key Positions**

Assembling a capable management team is an obvious part of the strategy implementation *task.* The recurring administrative issues here center on what kind of core management team is needed to carry out the strategy and finding the people to fill each slot. Sometimes the existing management team is suitable and sometimes the core executive group needs to strengthened and/or expanded, either by promoting qualified people from within or by bringing in skilled managerial talent from the outside to help infuse fresh ideas and fresh approaches into the organization's management. In turnaround situations, in rapid-growth situations, and in those cases, where the right kinds of managerial experience and skills are not present in-house, recruiting outsiders to fill key management slots is a standard part of the organization-building process.

**Role of Leadership in Strategic Implementation**

The employment of successful strategies defines your business and displays your abilities as a leader. Strategic implementation of your company's best concepts requires a dedicated manager familiar with the systems and processes involved. It also depends on the ability of a supervisor to successfully motivate her team of workers.

**Communicating Plans**

Strategic implementation begins with setting goals and communicating these to workers. Prioritize your objectives, put resources at employees' disposal, explain the processes and, above all, transmit your vision to your team. Communicating well means your listeners comprehend your words and are able to put them into action. For example, when describing how to implement a new software program, use layman's terms when talking to those who are not computer specialists. Give the information in small, digestible chunks and test understanding before moving on.

**Giving Out Assignments**

Proper delegation helps guarantee a smooth implementation of business strategy. The manager charged with strategic implementation must be able to pick out the people and teams best able to move the project forward. Leading the implementation requires taking pains to discover and test the abilities gifts of her staff. She should establish mini-leaders over various segments of the process who understand the scope of the implementation. These people will report directly to the overall manager and will be responsible for guiding their own groups. Pick enthusiastic, imaginative and people-oriented employees for these roles.

**Monitoring Execution**

Participate in all avenues of the strategic implementation. Ask questions while observing what your employees do in order to understand all the processes involved. Ask your group leaders for weekly progress updates. Keep abreast of the problems that arise and handle them expeditiously. Document the process carefully so you and others can refer to the literature for future ventures. Be flexible. If something does not work well in the way you have designed it, find other avenues until you find something that works better. Always take care not to micromanage your employees as you monitor the processes but instead be an involved leader who joins in the work to make it better.

**Encouraging Staff**

Your attitude will prove contagious for the staff. If you are energetic and willing to give your best to the company, others will follow suit. When encouraging your staff you need to be a consistent role model who stays on tasks, works to solve problems and keeps to a schedule. You want your employees to emulate your behavior without having to lecture them on what how to act and perform in the workplace. For example, if you are always on time and get to work quickly on the implementation process, your staff will understand the need to do so as well.

Create a culture of encouragement by praising hard work, passionate exhibitions and creativity in individual efforts. Your staff will appreciate the recognition.

## INNOVATION AND KNOWLEDGE MANAGEMENT

Knowledge and innovation are inseparable from each other- they drive economies around the world. Knowledge producers and users endeavour to leverage the ideas, technologies, know-how and expertise on which their competitiveness depends.

In simple terms, innovation is the application of / transmission of knowledge down a pipeline from research to development to application, with sharing knowledge through **collaborative** innovation becoming increasingly important. The intertwining relationship between innovation and knowledge is shown in the way organisations strive to acquire new knowledge, assimilate it and apply it to commercial ends. This absorptive capacity is arguably the most important differentiator for competitive advantage in the knowledge economy.

**Knowledge management (KM)** is a developing body of methods, techniques, tools, and values which organisations use to acquire, create, develop, share, transfer and apply knowledge to provide a return on their intellectual assets. For organisations to innovate – and thus sustain competitive advantage – requires the ability to quickly adapt to the business environment and save time-to-market. This adaptation requires learning, problem-solving, and the production and integration of relevant new knowledge in response to business problems.

Of the core components of KM – People, Process, Content and Technology – it is the People component that is increasingly regarded as the lynchpin of successful organisational innovation. Davenport and Prusak suggest that the best way an organisation can transfer and absorb knowledge effectively is to ―hire smart people and let them talk to each other.‖ Dr Judy Matthews has a similar prescription for innovation: ―the ingredients are the clever people and the processes are the interaction, context and a culture of knowledge sharing, or finding effective ways to let people talk and listen to one another.‖

### Knowledge management

"Knowledge Management is the way you manage your organisation, when you understand the value of your knowledge". In other words, it is the management framework (of Roles and Accountabilities, Processes, Technologies and Governance) that you put in place to maximise the value and application of your knowledge, and which provide a managed approach to building, developing and retaining know-how, in service of business goals.

Nick Milton discusses a Knowledge Management definition

Knowledge Management is about systematically making use of the knowledge in the organization, and applying it to YOUR business problem; tapping into 'What your company knows' to help you deliver your business results. It consists of never making the same mistake once (let along twice), and making every decision in the light of the full knowledge base of the company. The management of knowledge needs to be part of your business practices, just like the management of finance and the management of safety.

**What are the biggest barriers to Knowledge Management?**

- **Knowledge is power.** Too often people see knowledge hoarding as a way to personal power. However by the same argument, knowledge sharing is empowerment.
- People need to move from **Building empires** to building new relationships.
- The **Individual work bias** of the past ("I have to solve this all by myself") is shifting to a teamwork and a collaborative bias.
- **Local focus** is often a perceived barrier to knowledge management, which can be converted to a network focus by the establishment of communities of practice.
- **"Not invented here"** can be a real barrier to the import of knowledge, if the relationship of trust is missing. Trust will grow with face-to-face knowledge sharing, and few people resist a request for help.
- People are often afraid that **Errors will be Penalized**, and are therefore unwilling to share what they may see as failures. That is why techniques such as Retrospects accentuate learning from success
- People feel they are **Not paid to share**. Knowledge management is often seen as not part of normal business. Preserving the value of our knowledge assets is not seen as core business.
- People feel they have **No time to share**. This is a very real barrier; most people are 'maxed out' at the moment. So we need to make knowledge sharing as quick and efficient as we can, because really we have no time NOT to share.

**DISADVANTAGES OF AN IMPLEMENTATION PLAN**

A strategic plan is critical for a start-up business and a valuable management tool for an established business. However, the strategic plan is only the beginning. An implementation plan breaks down each strategy in the strategic plan into action plans with assigned responsibilities, costs, staffing and target date for completion. An implementation plan is also used with projects such as developing and introducing a product to market, upgrading computer systems or opening a new location. A poorly thought-out implementation plan is more of a disadvantage than an advantage to business.

**Garbage In, Garbage Out**

An implementation plan is only as good as the research and decision-making behind the plan. If the plan was hastily put together based on guesses rather than facts, it won't be as successful as a plan carefully crafted. Rather than assuming that the market won't change because it hasn't in the past, or no new competitors will enter the space, document the assumptions based on research.

**Focusing on Minutia**

Small-business owners may focus on the details of the implementation plan rather than the overall picture, wasting time and effort. It doesn't matter whether the social networking sites get updated three times a week or four. The point is that the sites are updated on a regular basis so friends and followers see something new and interesting when they visit. Another example is forecasting the specific expenses down to the last dollar. A few dollars off one way or the other is immaterial. The idea is to know that $10,000 will be spent on an Internet advertising campaign. If the campaign actually costs $9,567 or $10,164, it's fine.

**Unrealistic Costs and Time Factors**

An implementation plan that doesn't fully cover the necessary expenses won't be successful. Those functions that are phased -- part A must be accomplished before part B can start -- often take longer than planned. Add in a contingency factor for both costs and times. Keep track of each task in the implementation plan. As soon as one has an unfavorable variance, research why and adjust the plan.

**Lack of Responsibility**

An implementation plan that doesn't assign responsibility of each phase and task to a specific person or department is on track to failure. The person responsible for the task should have the authority to complete the task and be given the appropriate resources. For example, if the public relations person handles customer service and is the receptionist for the business, she won't have the time to handle all three functions adequately. If there aren't funds set aside to build or purchase a database of media contacts, she can't complete her publicity responsibilities.

**Carved in Stone**

An implementation plan is not meant to be carved in stone. Both the strategic and implementation plans should be reviewed as the year progresses -- or the project progresses -- and adjusted if necessary. Business owners, and their staff, sometimes think if it's not in the implementation plan it doesn't get done. That inflexibility leads to missed opportunities. For example, a competitor may be going out of business. The business owner may recognize she can increase her sales by increasing the advertising budget but be unwilling to do so because it's not in the implementation plan.

# CHAPTER EIGHT

# STRATEGIC MONITORING AND EVALUATION

**PURPOSE OF MONITORING AND EVALUATION**

What development interventions make a difference? Is the project having the intended results? What can be done differently to better meet goals and objectives? These are the questions that monitoring and evaluation allow organizations to answer.

Monitoring and evaluation are important management tools to track your progress and facilitate decision making. While some funders require some type of evaluative process, the greatest beneficiaries of an evaluation can be the community of people with whom your organization works. By closely examining your work, your organization can design programs and activities that are effective, efficient, and yield powerful results for the community. Definitions are as follows:

**Monitoring** can be defined as a continuing function thataims primarily to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results. An ongoing intervention might be a project, program or other kind of support to an outcome. Monitoring helps organizations track achievements by a regular collection of information to assist timely decision making, ensure accountability, and provide the basis for evaluation and learning.

**Evaluation** is the systematic and objective assessment of anon-going or completed project, program, or policy, and its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact, and sustainability. An evaluation should provide information that is credible anduseful, enabling the incorporation of lessons learned into the decision making process of both recipients and donors.

## Strategic questions

In conducting monitoring and evaluation efforts, the specific areas to consider will depend on the actual intervention, and its stated outcomes. Areas and examples of questions include:

- **Relevance**:Do the objectives and goals match theproblems or needs that are being addressed?
- **Efficiency**:Is the project delivered in a timely andcost-effective manner?
- **Effectiveness:**To what extent does theintervention achieve its objectives? What are the supportive factors and obstacles encountered during the implementation?
- **Impact**: What happened as a result of the project? This may include intended and unintended positive and negative effects.
- **Sustainability**: Are there lasting benefits after the intervention is completed?

**STEP-BY-STEP: Planning for Monitoring and Evaluation**

Steps for designing a monitoring and evaluation system depend on what you are trying to monitor and evaluate. The following is an outline of some general steps you may take in thinking through at the time of planning your activities:

1. **Identify who will be involved in the design, implementation, and reporting**. Engaging stake holders helps ensure their perspectives are understood and feedback is incorporated.
2. **Clarify scope**, purpose, intended use, audience, and budget for evaluation.
3. **Develop the questions** to answer what you want to learn as a result of your work.
4. **Select indicators**. Indicators are meant to provide a clear means of measuring achievement, to help assess the performance, or to reflect changes. They can be either quantitative and/or qualitative. A process indicator is information that focuses on how a program is implemented.
5. **Determine the data collection methods**. Examples of methods are: document reviews, questionnaires, surveys, and interviews.
6. **Analyze and synthesize the information you obtain**. Review the information obtained to see if there are patterns or trends that emerge from the process.
7. **Interpret these findings, provide feedback, and make recommendations**. The process of analyzing data and understanding findings should provide you with recommendations about how to strengthen your work, as well as any mid-term adjustments you may need to make.
8. **Communicate your findings and insights to stakeholders and decide how to use the results to strengthen your organization's efforts**.

Monitoring and evaluation not only help organizations reflect and understand past performance, but serve as a guide for constructive changes during the period of implementation.

**Good Design Has Five Components**

Good monitoring and evaluation design during project preparation is a much broader exercise than just the development of indicators. Good design has five components:

1. Clear statements of **measurable objectives** for the project and its components, for which indicators can be defined.
2. **A structured set of indicators**, covering outputs of goods and services generated by the project and their impact on beneficiaries.
3. **Provisions for collecting data and managing project records** so that the data required for indicators are compatible with existing statistics, and are available at reasonable cost.
4. **Institutional arrangements for gathering, analyzing, and reporting project data, and for investing in capacity building**, to sustain the M&E service.
5. **Proposals for the ways in which M&E findings will be fed back into decision making**.

**Examples**

**1. Project objectives**

Projects are designed to further long-term sectoral goals, but their immediate objectives, at least, should be readily measurable. Thus, for example, a health project might be designed to further the sectoral goals of a reduction in child mortality and incidence of infectious diseases, but have an immediate, measurable objective of providing more equitable access to health services. Objectives should be specific to the project interventions, realistic in the timeframe for their implementation, and measurable for evaluation.

India‘s District Primary Education Project, for example, set out its objectives at the district level in clear statements linked directly to indicators: Capacity building: District sub-project teams would be fully functional, implementing sub-project activities and reporting quarterly on progress. In-service teams would be functioning, with augmented staff and equipment, providing support for planning and management, teacher in-service training, development of learning materials, and program evaluation. Reducing dropout and improving learning achievement: School/community organizations would be fully functional for at least half the schools, and dropout rates would be reduced to less than 10 percent. Learning achievements in language and mathematics in the final year of primary school would be increased by 25 percent over baseline estimates. Improving equitable access. Enrollment disparities by gender and caste would be reduced to less than 5 percent.

**2. Indicators**

**Input indicators** are quantified and time-bound statements of resources to be provided. Information on these indicators comes largely from accounting and management records. Input indicators are often left out of discussions of project monitoring, though they are part of the management information system. A good accounting system is needed to keep track of expenditures and provide cost data for performance analysis of outputs. Input indicators are used mainly by managers closest to the tasks of implementation, and are consulted frequently, as often as daily or weekly.

Examples: vehicle operating costs for the crop extension service; levels of financial contributions from the government or cofinanciers; appointment of staff; provision of buildings; status of enabling legislation.

**Process indicators** measure what happens during implementation. Often, they are tabulated as a set of contracted completions or milestone events taken from an activity plan.

Examples: Date by which building site clearance must be completed; latest date for delivery of fertilizer to farm stores; number of health outlets reporting family planning activity; number of women receiving contraceptive counseling; status of procurement of school textbooks.

**Output indicators** show the immediate physical and financial outputs of the project: physical quantities, organizational strengthening, initial flows of services. They include performance measures based on cost or operational ratios.

Examples: Kilometers of all-weather highway completed by the end of September; percentage of farmers attending a crop demonstration site before fertilizer top-dressing; number of teachers trained in textbook use; cost per kilometer of road construction; crop yield per hectare; ratio of textbooks to pupils; time taken to process a credit application; number of demonstrations managed per extension worker; steps in the process of establishing water users' associations.

**Impact** refers to medium or long-term developmental change. (Some writers also refer to a further class of outcome indicators, more specific to project activities than impact indicators, which may be sectoral statistics, and deal more with the direct effect of project outputs on beneficiaries.) Measures of change often involve complex statistics about economic or social welfare and depend on data that are gathered from beneficiaries. Early indications of impact may be obtained by surveying beneficiaries' perceptions about project services. This type of leading indicator has the twin benefits of consultation with stakeholders and advance warning of problems that might arise.

Examples of impact: (health) incidence of low birth weight, percentage of women who are moderately or severely anemic; (education) continuation rates from primary to secondary education by sex, proportion of girls completing secondary education; (forestry) percent decrease in area harvested, percent increase in household income through sales of wood and non-wood products. Examples of beneficiary perceptions: proportion of farmers who have tried a new variety of seed and intend to use it again; percentage of women satisfied with the maternity health care they receive.

## 3. Collecting Data and Managing Project Records

The achievement of project objectives normally depends on how project beneficiaries respond to the goods or services delivered by the project. Evidence of their response and the benefits they derive requires consultation and data collection that may be outside the scope of management. It is important to identify how beneficiaries are expected to respond to project services, because managers will need evidence of that response if they are to modify their activities and strategy. Indications that beneficiaries have access to, are using, and are satisfied with project services give early indication that the project is offering relevant services and that direct objectives are likely to be met. Such evidence - market research - may be available sooner and more easily than statistics of impact such as changes in health status or improvements in income. Market research information is an example of a leading indicator of beneficiary perceptions that can act as a proxy for later, substantive impact. Other leading indicators can be identified to give early warning about key assumptions that affect impact. Examples would include price levels used for economic analysis, passenger load factors in transport projects, and adoption of healthcare practices. When planning the information needs of a project there is a difference between the detail needed for day-to-day management by the implementing agency or, later, for impact evaluation, and the limited number of key indicators needed to summarize overall progress in reports to higher management levels.

For example, during construction of village tubewells, project managers will need to keep records about the materials purchased and consumed, the labor force employed and their contracting details, the specific screen and pump fitted, the depth at which water was found, and the flow rate. The key indicators however, might be just the number of wells successfully completed and their average costs and flow rates.

**Exogenous indicators** are those that cover factors outside the control of the project but which might affect its outcome, including risks (parameters identified during economic, social, or technical analysis, that might compromise project benefits); and the performance of the sector in which the project operates. Concerns to monitor both the project and its wider environment call for a data collection capacity outside the project and place an additional burden on the project's M&E effort. A recent example of a grain storage project in Myanmar demonstrates the importance of monitoring risk indicators. During project implementation, policy decisions about currency exchange rates and direct access by privately owned rice mills to overseas buyers adversely affected the profitability of private mills. Management would have been alerted to the deteriorating situation had these indicators of the enabling environment been carefully monitored. Instead, a narrow focus on input and process indicators missed the fundamental change in the assumptions behind the project. The relative importance of indicators is likely to change during the implementation of a project, with more emphasis on input and process indicators at first, shifting to outputs and impact later on. This is a distinction between indicators of implementation progress and indicators of development results.

**Data collection Project field records**. Indicators of inputs and processes will come from project management records originating from field sites. The quality of record keeping in the field sets the standard for all further use of the data and merits careful attention. M&E designers should examine existing record-keeping and the reporting procedures used by the project authorities to assess the capacity to generate the data that will be needed. At the same time, they should explain how and why the indicators will be useful to field, intermediate, and senior levels of project management. The design of field records about, say, farmers in extension groups, people attending a clinic, or villagers using a new water supply, will affect the scope for analysis later. The inclusion of simple socioeconomic characteristics such as age and sex may significantly improve the scope for analysis. A good approach is to structure reporting from the field so that aggregates or summaries are made at intermediate stages. In this way, field staff can see how averages or totals for specific villages or districts enable comparisons to be drawn and fieldwork improved.

**Surveys and studies**. To measure output and impact may require the collection of data from sample surveys or special studies (including, where appropriate, participatory methods). Studies to investigate specific topics may call for staff skills and training beyond those needed for regular collection of data to create a time series. Where there is a choice, it is usually better to piggyback project-specific regular surveys on to existing national or internationally supported surveys than to create a new data collection facility. Special studies may be more manageable by a project unit directly, or subcontracted to a university or consultants. If the special studies are to make comparisons with data from other surveys it is vital that the same methods be used for data collection (see below). In the project plan, proposals to collect data for studies should include a discussion of: the objectives of the study or survey; the source of data; choices and proposed method of collection; and likely reliability of the data.

**Data comparability**. Some desired indicators of impact, such as mortality rates, school attendance, or household income attributable to a project, may involve comparisons with the situation before the project, or in areas not covered by the project. Such comparisons may depend on the maintenance of national systems of vital statistics, or national surveys. Before data from such sources are chosen as indicators of project impact the designer needs to confirm that the data systems are in place and reliable and that the data are valid for the administrative area in question and for any control areas. Potential problems in making comparisons with existing data include incomplete coverage of the specific project area; the use of different methods to collect data, such as interviewing household members in one survey and only household heads in another; and changes in techniques such as measuring crop output in one survey and collecting farmers‘ estimates in another. Problems such as these can invalidate any comparison intended to show changing performance. To give the comparability needed for evaluation, study proposals should explain and justify the proposed approach and ensure consistency in methods. The complexity of the statistics and problems of attributing causality mean that often it is more appropriate to use the delivery of services and beneficiary response as proxy indicators than to attempt to measure impact.

**Participatory methods of data collection** can bring new insights into peoples‘ needs for project planning and implementation, but are no less demanding on skills than questionnaire surveys. They are time-consuming and require substantial talent in communication and negotiation between planners and participants.

### 4. Institutional arrangements; capacity building

Good M&E should develop the capacity of the borrower and build on existing systems. Capacity building is widely acknowledged to be important but is often poorly defined. It means: upgrading skills in monitoring and evaluation, which include project analysis, design of indicators and reporting systems, socioeconomic data collection, and information management; improving procedures, to create functional systems that seek out and use information for decisions; and strengthening organizations to develop skilled staff in appropriate positions, accountable for their actions.

### 5. How Monitoring and Evaluation Findings Can Be Fed Back into Decision Making

In projects where operating performance standards are quoted as an objective, or where decentralized processes call for localized capacity to plan and manage work programs and budgets, designers will need to describe how and when M&E findings will be used to shape work plans and contribute to program or policy development. In Mexico, for example, the Second Decentralization and Regional Development Project plans to incorporate monitoring of implementation into its regular management procedures. Annual plans are to be prepared for each component, including an element of institutional development, and these will form the basis of annual monitoring. The analysis of implementation will depend on the functioning of a central database about sub-projects, created in each state from standardized data sheets. The database will produce the reports required for the project approval procedures, giving an incentive to field staff to use the system. Results from the implementation database will be analyzed in order to target field reviews and a mid-term review. The project has no specific monitoring and evaluation unit. Instead, each management sub-unit responsible for technical oversight of a component is responsible for ensuring the quality and timeliness of data collection, and for producing and analyzing reports. These reports will be presented by project component and be used to help diagnose technical and institutional implementation issues, propose and conduct studies, and plan institutional development and training.

**Experience with Implementation**

Even with a good design for M&E, **the Bank's experience shows that success during implementation depends heavily on a sense of ownership by the borrower, adequate capacity in borrower institutions, and sustained interest from the task and project managers throughout the life of the project.** Two factors are important here. One is that the borrower‘s sense of ownership of the project provides a stimulus to transparent management and good information about progress. The other is that often borrowers doubt the value of adopting what may be costly and time consuming procedures to collect, analyze, and report information. In such circumstances sound design is especially important, with monitoring information providing a clear input to management decision making and, often, an emphasis on the early gains to be had from monitoring and on institutional procedures that encourage the use of monitoring data to trigger further implementation decisions.

# Tools of strategic monitoring and evaluation

## BCG Matrix

**Boston Consulting Group (BCG) Matrix** is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it‘s portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU‘s (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

**Relative Market Share** = SBU Sales this year leading competitors sales this year.

**Market Growth Rate** = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU‘s are in same industry, the average growth rate of the industry is used. While, if all the SBU‘s are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

**10 x** **1 x** **0.1 x**

**Figure: BCG Matrix**

1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU‘s located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.
2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU‘s are the corporation‘s key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.
4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor‘s/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

**Limitations of BCG Matrix**

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

**SWOT Analysis -**

**SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats**. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

**SWOT Analysis** is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization‘s resources and capabilities to the requirements of the environment in which the firm operates. In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

1. **Strengths -** Strengths are the qualities that enable us to accomplish the organization‘s mission. These are the basis on which continued success can be made and continued/sustained. Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency. Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial

resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses -** Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet. Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.
3. **Opportunities -** Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities. Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.
4. **Threats -** Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization‘s business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

**Advantages of SWOT Analysis**

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.
b. Builds organization‘s strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
e. Overcome organization‘s threats.
f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm‘s resources and capabilities with the competitive environment in which the firm operates.

**<u>SWOT ANALYSIS FRAMEWORK</u>**

**Limitations of SWOT Analysis**

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;
d. Lack of skilled and efficient labour; etc

# The Role of Management Information Systems in Decision Making

Management information systems combine hardware, software and network products in an integrated solution that provides managers with data in a format suitable for analysis, monitoring, decision-making and reporting. The system collects data, stores it in a database and makes it available to users over a secure network.

**Information Access**

Managers need rapid access to information to make decisions about strategic, financial, marketing and operational issues. Companies collect vast amounts of information, including customer records, sales data, market research, financial records, manufacturing and inventory data, and human resource records. However, much of that information is held in separate departmental databases, making it difficult for decision makers to access data quickly. A management information system simplifies and speeds up information retrieval by storing data in a central location that is accessible via a network. The result is decisions that are quicker and more accurate.

**Data Collection**

Management information systems bring together data from inside and outside the organization. By setting up a network that links a central database to retail outlets, distributors and members of a supply chain, companies can collect sales and production data daily, or more frequently, and make decisions based on the latest information.

**Collaboration**

In situations where decision-making involves groups, as well as individuals, management information systems make it easy for teams to make collaborative decisions. In a project team, for example, management information systems enable all members to access the same essential data, even if they are working in different locations.

**Interpretation**

Management information systems help decision-makers understand the implications of their decisions. The systems collate raw data into reports in a format that enables decision-makers to quickly identify patterns and trends that would not have been obvious in the raw data. Decision-makers can also use management information systems to understand the potential effect of change. A sales manager, for example, can make predictions about the effect of a price change on sales by running simulations within the system and asking a number of ―what if the price was‖ questions.

**Presentation**

The reporting tools within management information systems enable decision-makers to tailor reports to the information needs of other parties. If a decision requires approval by a senior executive, the decision-maker can create a brief executive summary for review. If managers want to share the detailed findings of a report with colleagues, they can create full reports and provide different levels of supplementary data.

## Performance measurement

### Benchmarking, balanced scorecards and marketing performance

*As firms seek to improve the management of their increasingly large and complex operations there has been an increasing demand for benchmarking and balanced scorecards. But, as Nicholas Watkis explains, to use these effectively requires the chief marketing officer to be able to measure and quantify performance across all the marketing-based activities.*

When companies announce their annual results, there always seems to be criticism by the media and politicians about the level of profits. It does not seem to matter whether it is British Airways, BAE, Tesco, the banks or indeed any company. It would seem that profit is only acceptable provided that the level is discrete.

Yet those politicians and journalists who criticise large profits seem to forget that the purpose of any business is the generation of profit and profit only. The current vogue that seems to suggest that businesses have social and community responsibility, 'green agenda', charitable aid and tax liability, tend to ignore the fact that these aspects rely entirely on the ability of a business to make sustainable profits.

To make sustainable profits for the continuance of any business requires the executives to successfully balance and maintain the satisfaction of the very different requirements of the customers, employees and shareholders. Customers, employees and shareholders are equally important, because the business cannot continue without the satisfaction and cooperation of all three. While the principles of business remain the same, as businesses grow so the successful management of large organizations becomes more complex.

As managers have sought to improve the overall management of increasingly large and complex organisation, there has been an increasing demand for management systems that hopefully would improve business efficiency and effectiveness. Two principle systems in recent years have been that of 'benchmarking' and 'balanced scorecard'.

**Benchmarking**

Benchmarking is defined by David Kearns, chief executive of Xerox Corporation, as being ―the continuous process of measuring products, services and practices against the toughest competitors or those companies recognised as industry leaders‖. The objective of using benchmarking is to ensure that the best of proven practices are incorporated into an organisation‘s procedures. The definition covers all possible business endeavours whether a product, service or support process.

***"It is only by the change of its current practices and business processes that a business will achieve overall effectiveness through benchmarking. But to be effective, such change requires effective leadership and decision-making."***

While 'benchmarking' requires the search for those industry best practices that lead to superior performance, its perceived value is as a continuous process of measuring against the best. However, it is only by the change of its current practices and business processes that a business will achieve overall effectiveness through benchmarking. But to be effective, such change requires effective leadership and decision-making.

Benchmarking is potentially useful but not foolproof. To assume that successful companies use the best and most successful practices is dangerous. What are the best practices and how do you know? Every company is different, even in the same industry and market. They all work slightly differently, having different cultures and business drivers. The principle danger with benchmarking, is that while it is interesting to note methods and processes that appear to work in 'successful' businesses, slavish copying of such methods does not guarantee similar success and may be counter productive.

**Balanced scorecard**

The balanced scorecard is a strategic planning and management system that is used extensively in business, industry, government as well as non profit organisations worldwide to align business activities to the vision and strategy of the organisation. Designed to improve internal and external communications, and monitor organisation performance against strategic goals, it was originated by Dr Robert Kaplan and Dr David Norton of the Harvard Business School.

***"The balanced scorecard suggests that the business is viewed from four perspectives namely: finance, customer, learn and growth and internal processes, and that the collection and analysis of data as well as the development of metrics, should be relative to these perspectives."***

The first requirement of the balanced scorecard, as described by Kaplan and Norton, is for a company to define its 'vision and strategy'. Having defined vision and strategy, the balanced scorecard suggests that the business is viewed from four perspectives namely: finance, customer, learn and growth and internal processes, and that the collection and analysis of data as well as the development of metrics, should be relative to these perspectives.

In the Kaplan and Norton model of the balanced scorecard, in order to answer the questions specific to each perspective, the perspectives are all viewed in terms of objectives, measurements, targets and initiatives. For the customer perspective, the specific question is, ―how should we appear to customers to achieve the corporate 'vision?' For the financial perspective, the question is, ―how to appear to shareholders to succeed financially?‖ For learning and growth, ―How to sustain change and improvement to achieve vision and strategy?‖. The key question for Internal Processes, is― What business processes must be excelled at to satisfying customers and shareholders?‖

At the centre of the balanced scorecard is the corporate vision and strategy. For many businesses this is the opportunity to define the company position in terms of social commitment, environmental responsibilities and general good works. However, not many vision and strategy statements mention that the purpose of a commercial organisation is to develop a self-sustaining profitable business, which is essential for a company‘s future.

**CMOs and the key to success**

Regardless of the vision statement, the objective of those in charge of getting and retaining business is to maximise sustainable profitable revenue. Applying this to the four perspectives requires the chief marketing officer (CMO) to be involved with at least three of the four perspectives.

***"The key to the success of using balanced scorecard and benchmarking, is to use the systems as a guide to help the CMO achieve the objective of maximising sustainable profitable revenue."***

CMOs will be involved with the customer perspective primarily through the customer relationship management system. The finance perspective requires inputs from the CMO in terms of budgets, investments and return, while internal business processes area requires the CMO‘s inputs from management systems of control and measurement. The ability of the CMO to identify and interpret results and trends will determine the input into the learning and growth perspectives.

To use the balanced scorecard and benchmarking effectively, requires the CMO to be able to measure and quantify performance across all the marketing based activities involved in getting and retaining business.

CEOs need to know how much profitable revenue their business makes, whether it is sustainable, where it comes from and what it costs to get it, as well as considering their overall level of gross and net profit. In assessing how the company performance rates against competitors, the CEO will rely on the CMO to provide the best data to use in the balanced scorecard and for comparison in benchmarking.

The key to the success of using balanced scorecard and benchmarking, is to use the systems as a guide to help the CMO achieve the objective of maximising sustainable profitable revenue. Measuring marketing performance is essential for the effective management of all the various business getting and retaining activities. The danger for many businesses is, that in seeking to comply with the requirements of balanced scorecard and benchmarking, they lose sight of their true purpose as a management tools to maintain a self-sustaining profitable business, and see compliance as an objective in itself

## Characteristics of a Good Monitoring & Evaluation System

A well-designed M&E system should describe in detail the following things:

1. Methodology or Processes for collecting and using data
2. Purpose/uses of the data collected
3. Type of data to be collected (both qualitative and quantitative)
4. Frequency of data collection

A good M&E system helps identify promising interventions early so that they can potentially be implemented elsewhere. Having data available about how well a particular project, practice, program, or policy works, it provides useful information for formulating and justifying budget requests. It also allows judicious allocation of scarce resources to the interventions that will provide the greatest benefit.

The key characteristics of an effective M&E system are the following:

1. It measures and reports on outputs that reflect the critical stated strategic objectives of the organization;
2. It provides clear indicators against which the organization is working, and being measured; and that within the organization, information for the outputs being measured is available and verifiable.
3. A good M&E system identifies the key issues and root of the problems that you want to address
4. It must be cost-effective for the operating unit
5. It must be result oriented

6. The M&E system must itself be monitored and updated regularly
7. It must track and effectively support the policy reform process
8. Provides a user-friendly means of understanding the current status of the relevant policy
9. Provides a rationale for how future performance targets are set
10. It must be computerized
11. It must make the decision making at management level easy and efficient
12. It must determine the appropriateness of the institutional mechanism undertaken
13. An effective M&E System must have ways to report the findings to those who can take action and use the findings for positive change
14. It must identify the responsible persons and the finalize the actions agreed
15. An effective and very good M&E system will be the one which reports its findings in a positive way and as constructive criticism.

The standard criteria for assessing the quality of your M&E system are:

- ***Utility*** Will the M&E system serve the practical information needs of intended users;
- ***Feasibility*** Are the methods, sequences, timing and processing procedures proposed realistic, prudent and cost effective;
- ***Propriety*** Will the M&E activities be conducted legally, ethically and with due regard for the welfare of those affected by its results;
- ***Accuracy*** Will the M&E outputs reveal and convey technically adequate information.

These criteria can also be used when updating the M&E system.

# CHAPTER NINE

# MANAGEMENT OF STRATEGIC CHANGE

## Strategic Leadership

**Strategic leadership refers to a manager's potential to express a strategic vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision**. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in an ambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization‘s needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is about inventiveness, perception, and planning to assist an individual in realizing his objectives and goals.

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

A few main **traits / characteristics / features / qualities** of effective strategic leaders that do lead to superior performance are as follows:

- ✓ **Loyalty-** Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.
- ✓ **Keeping them updated-** Efficient and effective leaders keep themselves updated about what is happening within their organization. They have various formal and informal sources of information in the organization.
- ✓ **Judicious use of power-** Strategic leaders makes a very wise use of their power. They must play the power game skillfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.
- ✓ **Have wider perspective/outlook-** Strategic leaders just don‘t have skills in their narrow specialty but they have a little knowledge about a lot of things.
- ✓ **Motivation-** Strategic leaders must have a zeal for work that goes beyond money and power and also they should have an inclination to achieve goals with energy and determination.
- ✓ **Compassion-** Strategic leaders must understand the views and feelings of their subordinates, and make decisions after considering them.

- **Self-control-** Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e., they must think before acting.
- **Social skills-** Strategic leaders must be friendly and social.
- **Self-awareness-** Strategic leaders must have the potential to understand their own moods and emotions, as well as their impact on others.
- **Readiness to delegate and authorize-** Effective leaders are proficient at delegation. They are well aware of the fact that delegation will avoid overloading of responsibilities on the leaders. They also recognize the fact that authorizing the subordinates to make decisions will motivate them a lot.
- **Articulacy-** Strong leaders are articulate enough to communicate the vision(vision of where the organization should head) to the organizational members in terms that boost those members.
- **Constancy/ Reliability-** Strategic leaders constantly convey their vision until it becomes a component of organizational culture.

To conclude, Strategic leaders can create vision, express vision, passionately possess vision and persistently drive it to accomplishment.

## Implementing change

Whether the effort to implement change is institution-wide or focused at the departmental level, the reason for failure can nearly always be traced to a lack of effective change management skills exhibited by the leader. More specifcically, it is most often a leader‘s misunderstanding of organizational culture and human relations within that culture that prevent successful implementation of change strategies.

There are many theories about how to "do" change. Many originate with leadership and change management guru, John Kotter. A professor at Harvard Business School and world-renowned change expert, Kotter introduced his eight-step change process . These eight steps for leading change are:-

**Step 1: Create Urgency**

For change to happen, it helps if the whole company really wants it. Develop a sense of urgency around the need for change. This may help you spark the initial motivation to get things moving.

This isn't simply a matter of showing people poor sales statistics or talking about increased competition. Open an honest and convincing dialogue about what's happening in the marketplace and with your competition. If many people start talking about the change you propose, the urgency can build and feed on itself.

**Step 2: Form a Powerful Coalition**

Convince people that change is necessary. This often takes strong leadership and visible support from key people within your organization. Managing change isn't enough – you have to lead it.

You can find effective change leaders throughout your organization – they don't necessarily follow the traditional company hierarchy. To lead change, you need to bring together a coalition, or team, of influential people whose power comes from a variety of sources, including job title, status, expertise, and political importance.

Once formed, your "change coalition" needs to work as a team, continuing to build urgency and momentum around the need for change.

**Step 3: Create a Vision for Change**

When you first start thinking about change, there will probably be many great ideas and solutions floating around. Link these concepts to an overall vision that people can grasp easily and remember.

A clear vision can help everyone understand why you're asking them to do something. When people see for themselves what you're trying to achieve, then the directives they're given tend to make more sense.

**Step 4: Communicate the Vision**

What you do with your vision after you create it will determine your success. Your message will probably have strong competition from other day-to-day communications within the company, so you need to communicate it frequently and powerfully, and embed it within everything that you do.

Don't just call special meetings to communicate your vision. Instead, talk about it every chance you get. Use the vision daily to make decisions and solve problems. When you keep it fresh on everyone's minds, they'll remember it and respond to it.

It's also important to "walk the talk." What you do is far more important – and believable – than what you say. Demonstrate the kind of behavior that you want from others.

**Step 5: Remove Obstacles**

If you follow these steps and reach this point in the change process, you've been talking about your vision and building buy-in from all levels of the organization. Hopefully, your staff wants to get busy and achieve the benefits that you've been promoting.

But is anyone resisting the change? And are there processes or structures that are getting in its way?

Put in place the structure for change, and continually check for barriers to it. Removing obstacles can empower the people you need to execute your vision, and it can help the change move forward.

**Step 6: Create Short-Term Wins**

Nothing motivates more than success. Give your company a taste of victory early in the change process. Within a short time frame (this could be a month or a year, depending on the type of change), you'll want to have some "quick wins" that your staff can see. Without this, critics and negative thinkers might hurt your progress.

Create short-term targets – not just one long-term goal. You want each smaller target to be achievable, with little room for failure. Your change team may have to work very hard to come up with these targets, but each "win" that you produce can further motivate the entire staff.

**Step 7: Build on the Change**

Kotter argues that many change projects fail because victory is declared too early. Real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change.

Launching one new product using a new system is great. But if you can launch 10 products, that means the new system is working. To reach that 10th success, you need to keep looking for improvements.

Each success provides an opportunity to build on what went right and identify what you

can **Step 8: Anchor the Changes in Corporate Culture**

Finally, to make any change stick, it should become part of the core of your organization. Your corporate culture often determines what gets done, so the values behind your vision must show in day-to-day work.

Make continuous efforts to ensure that the change is seen in every aspect of your organization. This will help give that change a solid place in your organization's culture.

It's also important that your company's leaders continue to support the change. This includes existing staff and new leaders who are brought in. If you lose the support of these people, you might end up back where you started.

## Managing organization powers and politics

**Effective Leadership**

There are seven essential principles for managing power and politics in organizations. They are based on the philosophy of Niccolo Machiavelli, the classic theorist in the field. Not even skilled and relatively sophisticated people can succeed in management -- and be seen as leaders -- without internalizing these principles, although they may have minor short-term successes. In the long run, they will be undermined because they can't build and keep alliances, protect themselves from the grapevine or influence top management. Here are the principles:

1. To gain cooperation from subordinates or peers, **show how it will benefit the individual.** Most managers worry about how to motivate people. It can't be done. Trying to motivate

someone is like pushing on the end of a string. Persuading a subordinate to do something for the "good of the organization" is futile. This is especially true when dealing with Baby Busters who have a lifetime immunity against organizational loyalty.

Treat organizational change as a political issue and determine who has an interest or who can be given an interest in the changes the organization needs to make. Too often, no attempt is made to build a consensus around change because the change is "necessary" or "logical." The successful politician's mindset is, "What can I do for you that will make you want to do it my way?" People motivate themselves when they see clearly that what you want them to do will benefit them.

For cooperation from colleagues, establishing a peer relationship is essential. People who don't or can't do this will encounter jealousy, resentment or other relationship-destroying feelings in co-workers whose help they need most. For example, the medical director who doesn't believe the nursing vice president or hospital CEO is his/her organizational equal had best give an Oscar-winning performance to the contrary. The lawyer who wants a paralegal to think as she does must exhibit nothing but egalitarianism.

Submerge all thoughts that, because you are better educated and hold a higher rank, you're entitled to respect. Entitlement is a career killer, whatever your rank.

2. **Plug into and monitor the grapevine.** It‘s the best way to establish an early warning system. It's imperative that you know how people think about organizational issues. Too many managers (though not the truly powerful) are disdainful of office gossip. "Petty stuff" or "personal trivia," they say. Wrong! The grapevine is accurate at least 85 percent of the time -- and that's a conservative estimate. It also carries the word from the grassroots. Unless you are plugged in, events will surprise you. You might shoot from the hip and undermine your position. Managers are expected to be in control of themselves as well as events.

Test your level of knowledge: Has anything happened in your organization in the past month that you learned about from your boss before you heard it in the grapevine? If so, there are gaps in your intelligence system. Fill them by identifying the entrenched power people, usually long-term support staff, and building alliances with them.

3. **Always exhibit absolutely predictable behavior.** If you asked workers at every level, everywhere, which boss (and/or co-worker) bothered them most, they would say, "The one that goes crazy over a missed deadline one month and does not respond that way next month. I can never figure out how he/she will react." Predictable responses allow subordinates to manage up, peers to mesh effectively and teach everyone how to manage you.

4. **Give all the credit and take all the blame.** The power position is always giving credit, never receiving it. People who solicit praise for their work either have ego deficits or no desire for power or both. The grapevine knows who did what. The need for adulation is an infallible sign of insecurity and undermines the troops' confidence in management.

Taking the blame means that people will hurt themselves scrambling to work with and for you. They will realize that a mistake that may have been as much an organizational as a personal failure won't trash their careers. You, at least, don't believe that blood sacrifice must follow every disaster to placate the organization. Don't be surprised, as you shoulder the blame, when people rush to share a portion of the disaster. No one is allowed to hog the spotlight for more than 10 seconds, good or bad.

Without this attitude, getting people to take the risks needed to make changes or get the result would be difficult, even impossible. Why should anyone put herself on the line personally?

5. **Anticipate needs before they go public.** Here's another reason to listen to the grapevine: Every gripe you hear represents an unmet need and an opportunity to go one-on-one with someone and meet his/her needs in exchange for whatever you want done.

6. **Keep your ego hermetically sealed in an old mayo jar.** Effective people are (relatively) ego-free. Nobody can aggravate you unless you agree to be aggravated. No one can insult you without your willing participation. Remember, work is a role. You are not what you do for a living. The people you work with don't know you well enough to dislike you personally. That privilege is reserved for family and close friends. Disliking your plans for change or reorganization isn't the same as disliking you personally. By the way, why do you care whether you're liked? Isn't respected and followed the key?

7. **Keep score from results only.** The motto for the new millennium is "Get the result." Effort never counts and there is no such thing as a magnificent failure. All failures look pretty much the same. Process-oriented people, those determined to do things the "right" way, are rarely flexible or creative enough to dream up the solutions that will get the result.

How much or little you like people is not important; what counts is how well you work with them. It doesn't matter if you love what you do as long as you appear to love it. It doesn't matter if you're sincere. Some fairly terrible things, e.g., giving someone your honest opinion, are done in the name of sincerity. Righteousness is another non-starter. People whose personal values are "right versus wrong" rather than "get the result" are in mortal danger of bashing their own - and other peoples' - careers.

You won't be able to oust the CEO by applying these principles but you might be able to succeed him/her. If you are the CEO or the leader of your own entrepreneurial venture, these same principles apply to help you stay in touch, connected and on top. No one who's really in tune with Machiavelli has been less successful than someone whose M.O. is slash and burn. And the results for the organization are always more positive!

**BUSINESS EXCELLENCE**

Business Excellence (BE) is about developing and strengthening the management systems and processes of an organization to improve performance and create value for stakeholders. BE is much more than having a quality system in place. BE is about achieving excellence in everything that an organization does (including leadership, strategy, customer focus, information management, people and processes) and **most importantly achieving superior business results.**

**Business Excellence Core Values and Concepts**

BE core values and concepts are the attributes, beliefs and/or behaviors that BE organizations exhibit. They are the foundations of BE and are embedded into the fabric of successful organizations.

**Business Excellence Model**

Business Excellence Models (BEMs) were first called Total Quality Management models. Today they are usually referred to as Business Excellence Models – this term helps to communicate the importance of ―excellence‖ in all aspects of a business, not only product and process quality. The models, such as Figure 4, are used to assess how well BE core values and concepts (the ingredients of success) are embedded in an organization. These models are now used in at least 83 countries as a key mechanism to help businesses to improve.

BEMs help organizations to assess their strengths and areas for improvement and guide them on what to do next. BEMs provide senior managers with a holistic method with which to manage their business and get buy-in to key decisions that will lead to sustainable and measurable success. In a sense, the BEMs serve as the organization‗s own internal business consultant – ensuring that business decisions incorporate the needs of all stakeholders, are aligned to the organization‗s objectives and take into account current thought on international best practices.

Several business excellence models exist world-wide. While variations exist, these models are all remarkably similar. The most common include;

- Baldrige (MBNQA) – Used in over 25 countries including US and NZ
- European Foundation for Quality Management (EFQM) – Used throughout Europe
- Singapore Quality Award Model – Singapore
- Japan Quality Award Model – Japan
- Canadian Business Excellence Model – Canada
- Australian Business Excellence Framework (ABEF) – Australia

**Baldrige Model**

The most popular and influential model in the western world is the one launched by the US government called the Malcolm Baldrige Award Model (also commonly known as the Baldrige model, the Baldrige criteria, or The Criteria for Performance Excellence). More than 25 countries base their frameworks upon the Baldrige criteria.

The Baldrige model consists of practices that are incorporated into six Approach categories plus a Results category consisting of -

- Leadership
- Strategic Planning
- Customer and Market Focus
- Measurement, Analysis, and Knowledge Management
- Workforce focus
- Process Management
- Business Results

The Baldrige Values include:

- Visionary Leadership
- Customer-Driven Excellence
- Organisational and Personal Learning
- Valuing Employees and Partners
- Agility
- Focus on the Future
- Managing for Innovation
- Management by Fact
- Social Responsibility
- Focus on Results and Creating Value
- Systems Perspective

**EFQM model**

- The EFQM model consists of six process enablers and one results category:
- Leadership
- Policy and Strategy
- People
- Partnerships and Resources
- Processes
- Customer Results
- People Results
- Society Results
- Key Performance Results

The fundamental concepts include:

- Results orientation
- Customer focus
- Leadership and constancy of purpose
- Management by processes and facts
- People development and involvement
- Continuous learning, innovation and improvement
- Partnership development
- Public responsibility

**BUSINESS EXCELLENCE ASSESSMENTS**

BEMs are essentially assessment models. They are used to assess an organization‘s strengths and areas for improvement. From this information, senior management can make sensible decisions on the actions needed to achieve the desired results.

There are many different ways that organizations can assess their systems and performance against BEMs. The five principal ways are:

(1) ***A questionnaire approach***. Consists of a set of questions to assess an organization's performance for each category item. The results can then be analyzed to determine appropriate actions.

(2) ***A pro forma approach***. This involves forms being designed for all of category items. Each form would require the organization to record how it addressed that particular item, its strengths, weaknesses, and actions for improvement.

(3) ***A workshop approach***. This approach usually involves a senior management team gathering data and evidence to present to peers at a workshop. At the workshop, performance against the model is scored and action plans are agreed upon.

(4) ***A matrix chart approach***. This involves the creation of a company specific achievement matrix within the framework of a BEM. It typically consists of a series of statements of achievements for each category using a scale of 1-10 points. Individuals or teams use the matrix to score their business processes/organization.

(5) ***An award approach***. This approach involves writing a full submission document along the lines described by the administrators of a country's national BE award. Based on the evidence within the submission document and supporting evidence from a site visit, internal or external assessors evaluate the organization and provide feedback.

The decision of which approach to use depends on the company's objectives and level of BE maturity. In general, it is recommended that companies in the first instance use a questionnaire approach and then develop, once they are more mature, a more sophisticated approach. Whichever assessment approach is used it is recommended that all the senior management team are involved and at least a cross-section of employees so that a consensus view on the state of the organization and the actions required is obtained. Involving a wide-group of participants will help everyone to understand the issues the organization is facing and lead to a greater level of buy-in to any actions that follow.

For assistance in undertaking a BE assessment, please contact your national BE administrator, their contact details can be found at www.apo.bpir.com.

## THE BENEFITS OF BUSINESS EXCELLENCE FOR SMALL AND MEDIUM ENTERPRISES

Research on the overall benefits of using BEMs indicates that organizations with a BE approach obtain significant operational and financial benefits. Research has shown that SMEs obtain benefits more quickly than large organizations as they can move quickly to make changes to how their business is run. A list of SME benefits is shown below:

i. BEMs help organizations to understand how well all the different functions, units, processes, systems are working together to produce the desired business results. This helps managers and employees to understand their business better and make better decisions

ii. BEMs help managers and employees to have a common viewpoint on the health of their organization and the key issues that are faced. This enables managers and employees to unite together to tackle the issues and move the organization forward.

iii. BE helps SMEs to implement a cohesive improvement strategy which integrates a range of improvement initiatives, tools and/or techniques such as Improvement Teams, Lean, Statistical Process Control (SPC), ISO9001, ISO 14001 and Balanced Scorecard. BEMs can be used as an overarching framework for managing and aligning various organizational improvement initiatives. The adoption of the most appropriate improvement initiatives varies according to the organizational situation and level of the organization‘s maturity.

iv. BE helps organizations to address various business challenges. _Strategic Planning‘ helps to address changes in the business environment such as the financial crisis. 'Workforce focus' helps to address human resources, cultural and social issues. 'Operations focus' helps to address multiple legal requirements and international standards. 'Leadership' helps to address accountability, corporate governance, environmental and societal issues.

v. Many SMEs cannot afford to have independent directors or consultants to assess and appraise the management and health of their organization on a regular basis. Regular BE self-assessments can go some way in fulfilling this role and ensuring that due diligence is paid to the development of the business and key risks are identified and addressed.

Other benefits from BE:

i. BE assessments serve as an organizational health check.
ii. External BE assessments (undertaken by independent evaluators) provide an outsider‘s view on the health of the organization and enable the organization to be considered for a quality / BE award.
iii. Achieving BE certification or winning a quality / BE award provides public recognition.
iv. BE assessments enable organizations to compare their performance against others both domestically and globally.
v. BEMs provide a common framework for learning and sharing _best practices‘ both within and between organizations.
vi. BEMs help SMEs to develop a systematic and robust system that supports rapid growth and expansion whilst ensuring alignment of strategy.

# Learning organization

A **learning organization** is the term given to a company that facilitates the learning of its members and continuously transforms itself.

Learning organizations develop as a result of the pressures facing modern organizations and enables them to remain competitive in the business environment.

A learning organization has five main features;

- systems thinking,
- personal mastery,
- mental models,
- shared vision
- And team learning.

The **Learning organization** concept was coined through the work and research of Peter Senge and his colleagues.

It encourages organizations to shift to a more interconnected way of thinking. Organizations should become more like communities that employees can feel a commitment to. They will work harder for an organization they are committed to

## Development

Organizations do not organically develop into learning organizations; there are factors prompting their change. As organizations grow, they lose their capacity to learn as company structures and individual thinking becomes rigid. When problems arise, the proposed solutions often turn out to be only short-term (single loop learning) and re-emerge in the future.] To remain competitive, many organizations have restructured, with fewer people in the company. This means those who remain need to work more effectively. To create a competitive advantage, companies need to learn faster than their competitors and to develop a customer responsive culture. Argyris identified that organizations need to maintain knowledge about new products and processes, understand what is happening in the outside environment and produce creative solutions using the knowledge and skills of all within the organization. This requires co-operation between individuals and groups, free and reliable communication, and a culture of trust.

## Characteristics

There is a multitude of definitions of a learning organization as well as their typologies. According to Peter Senge, a learning organization exhibits five main characteristics: systems thinking, personal mastery, mental models, a shared vision, and team learning.

**Systems thinking**. The idea of the learning organization developed from a body of work called systems thinking. This is a conceptual framework that allows people to study businesses as bounded objects. Learning organizations use this method of thinking when assessing their company and have information systems that measure the performance of the organization as a whole and of its various components. Systems thinking states that all the characteristics must be apparent at once in an organization for it to be a learning organization.If some of these characteristics are missing then the organization will fall short of its goal. However, O'Keeffe believes that the characteristics of a learning organization are factors that are gradually acquired, rather than developed simultaneously.

**Personal mastery**. The commitment by an individual to the process of learning is known as personal mastery.There is a competitive advantage for an organization whose workforce can learn more quickly than the workforce of other organizations. Individual learning is acquired through staff training, development and continuous self-improvement; however, learning cannot be forced upon an individual who is not receptive to learning. Research shows that most learning in the workplace is incidental, rather than the product of formal training, therefore it is important to develop a culture where personal mastery is practiced in daily life. A learning organization has been described as the sum of individual learning, but there must be mechanisms for individual learning to be transferred into organizational learning.

**Mental models**. The assumptions held by individuals and organizations are called mental models. To become a learning organization, these models must be challenged. Individuals tend to espouse theories, which are what they intend to follow, and theories-in-use, which are what they actually do. Similarly, organizations tend to have _memories' which preserve certain behaviours, norms and values. In creating a learning environment it is important to replace confrontational attitudes with an open culture that promotes inquiry and trust. To achieve this, the learning organization needs mechanisms for locating and assessing organizational theories of action. Unwanted values need to be discarded in a process called _unlearning'. Wang and Ahmed refer to this as _triple loop learning.'

**Shared vision.** The development of a shared vision is important in motivating the staff to learn, as it creates a common identity that provides focus and energy for learning. The most successful visions build on the individual visions of the employees at all levels of the organization, thus the creation of a shared vision can be hindered by traditional structures where the company vision is imposed from above.Therefore, learning organizations tend to have flat, decentralized organizational structures.The shared vision is often to succeed against a competitor; however, Senge states that these are transitory goals and suggests that there should also be long-term goals that are intrinsic within the company.

**Team learning.** The accumulation of individual learning constitutes Team learning. The benefit of team or shared learning is that staff grow more quickly and the problem solving capacity of the organization is improved through better access to knowledge and expertise.Learning organizations have structures that facilitate team learning with features such as boundary crossing and openness.Team learning requires individuals to engage in dialogue and discussion;therefore team members must develop open communication, shared meaning, and shared understanding. Learning organizations typically have excellent knowledge management structures, allowing creation, acquisition, dissemination, and implementation of this knowledge in the organization.

**Benefits**

The main benefits are;

- Maintaining levels of innovation and remaining competitive
- Being better placed to respond to external pressures[
- Having the knowledge to better link resources to customer needs
- Improving quality of outputs at all levels
- Improving Corporate image by becoming more people oriented
- Increasing the pace of change within the organization

## Barriers

Even within or without learning organization, problems can stall the process of learning or cause it to regress. Most of them arise from an organization not fully embracing all the necessary facets. Once these problems can be identified, work can begin on improving them.

Some organizations find it hard to embrace personal mastery because as a concept it is intangible and the benefits cannot be quantified;,personal mastery can even be seen as a threat to the organization. This threat can be real, as Senge points out, that ―to empower people in an unaligned organization can be counterproductive‖. In other words, if individuals do not engage with a shared vision, personal mastery could be used to advance their own personal visions. In some organizations a lack of a learning culture can be a barrier to learning. An environment must be created where individuals can share learning without it being devalued and ignored, so more people can benefit from their knowledge and the individuals becomes empowered.A learning organization needs to fully accept the removal of traditional hierarchical structures.

Resistance to learning can occur within a learning organization if there is not sufficient buy-in at an individual level. This is often encountered with people who feel threatened by change or believe that they have the most to lose. They are likely to have closed mind sets, and are not willing to engage with mental models.[ Unless implemented coherently across the organization, learning can be viewed as elitist and restricted to senior levels. In that case, learning will not be viewed as a shared vision. If training and development is compulsory, it can be viewed as a form of control, rather than as personal development. Learning and the pursuit of personal mastery needs to be an individual choice, therefore enforced take-up will not work.

In addition, organizational size may become the barrier to internal knowledge sharing. When the number of employees exceeds 150, internal knowledge sharing dramatically decreases because of higher complexity in the formal organizational structure, weaker inter-employee relationships, lower trust, reduced connective efficacy, and less effective communication. As such, as the size of an organizational unit increases, the effectiveness of internal knowledge flows dramatically diminishes and the degree of intra-organizational knowledge sharing decreases.

**Some problems and issues.** In our discussion of Senge and the learning organization we point to some particular problems associated with his conceptualization. These include a failure to fully appreciate and incorporate the imperatives that animate modern organizations; the relative sophistication of the thinking he requires of managers (and whether many in practice are up to it); and questions regarding his treatment of organizational politics. It is certainly difficult to find real-life examples of learning organizations (Kerka 1995). There has also been a lack of critical analysis of the theoretical framework.

Based on their study of attempts to reform the Swiss Postal Service, Matthias Finger and Silvia Bűrgin Brand (1999) provide us with a useful listing of more important shortcomings of the learning organization concept. They conclude that it is not possible to transform a bureaucratic organization by learning initiatives alone. They believe that by referring to the notion of the learning organization it was possible to make change less threatening and more acceptable to participants. ‗However, individual and collective learning, which has undoubtedly taken place, has not really been connected to organizational change and transformation'. Part of the issue, they suggest, has to do with the concept of the learning organization itself. They argue that the concept of the learning organization:

**Focuses mainly on the cultural dimension and does not adequately take into account the other dimensions of an organization.** To transform an organization, it is necessary to attend to structures and the organization of work as well as the culture and processes. ‗Focussing exclusively on training activities in order to foster learning… favours this purely cultural bias'.

**Favours individual and collective learning processes at all levels of the organization, but does not connect them properly to the organization's strategic objectives.** Popular models of organizational learning (such as Dixon 1994) assume such a link. It is, therefore, imperative ‗that the link between individual and collective learning and the organization's strategic objectives is made'. This shortcoming, Finger and Brand argue, makes a case for some form of measurement of organizational learning – so that it is possible to assess the extent to which such learning contributes or not towards strategic objectives.

# Lean and quality management

## LEAN

Lean is an operating philosophy that originally derived from the Toyota Production System. It focuses on shortening the time that elapses between a customer's order and the shipment of the product or the provision of the service that fills the order. Lean accomplishes this by eliminating waste from processes, with waste being defined as anything that is not necessary to produce the product or service. Lean helps organizations reduce both costs and cycle time, resulting in a more agile and market-responsive company

### Tools and Techniques

The tools and techniques used during the implementation of lean are referred to as the lean ―building blocks.‖ Although these tools vary somewhat from consultant to consultant and from company to company, the most common ones can be described as follows.

### Five S

The Five S technique is named after five words that begin with the letter ―S‖ in Japanese. It aims to bring orderliness, tidiness, and cleanliness to operations -- along with the discipline needed to keep processes orderly and standardized. See Pojasek, R.B (1999, Autumn). Quality Toolbox.

Five S‘s: A Tool that Prepares an Organization for Change. Environmental Quality Management, 9(1), 97-103.

**Visual Controls**

With visual controls, all tooling, parts, and other production activities are kept clearly in view to help everyone involved understand the status of the process at a glance. Visual controls are usually linked to Five S.

**Poka-Yoke**

Poka-yoke literally means ―mistake proofing.‖ By using poka-yoke, process designs can be modified to make it nearly impossible for mistakes, spills, leaks, and other process upsets to occur. See Pojasek, R.B. (1999, winter). Quality Toolbox. Poka-Yoke and Zero Waste. Environmental Quality Management, 9(2), 91-97.

**Cellular Design**

―Cellular design‖ refers to a technique in which facility layout is designed according to optimum operational sequences. Raw materials, parts, information, tooling, and work standards are stored where they are needed and used. The design model centers around one-piece flow, which is considered to be the best batch size. If this is not appropriate, the batch size is reduced.

**Quick Changeover**

The ability to change tooling and fixtures rapidly allows for multiple products in smaller batches to be run on the same equipment.

**Pull Scheduling**

Under the pull scheduling system, the internal supplier does not produce until an internal or external customer signals a need for the part or service using a ―kanban‖ system.

This practice contributes to ―just in time‖ production and creates what the practitioners refer to as ―flow.‖ At all times, standardized work or prescribed methods are used. !Kaizen Kaizen is a staged event where many minor adjustments are made in a particular part of a process. This approach allows for continuous improvement.

**MORE ON LEAN TOOLS AND TECHNIQUES**

Many of the building blocks discussed here are interconnected, and generally are implemented in tandem.

In addition to the specific tools and concepts noted in this column, there are some other jargon-laden techniques -- such as takt time, jidoka, heijunka, and muda elimination -- that are not discussed here.

**IMPLEMENTING LEAN**

The general path for implementing lean includes the following steps.

**Value Stream Mapping**

This technique details the specific actions required to bring a product family to the state of being ―finished goods,‖ based on customer demand. Value stream mapping, which operates at a high level of abstraction, concentrates on information management and physical transformation.

Using a value stream map,the lean implementation team can determine ways to bring the lead time for a product much closer to a value-added processing time by modifying bottlenecks and other process constraints.

The team produces a ―future state map‖ to show how the preferred process should operate after the bottlenecks are identified and remedied.

**Lean Baseline Assessment**

Lean is an assessment-based procedure. This means that the implementation team uses interviews, flow charts, process observation, and other data to generate a situation or ―current state‖ report. Specific changes and recommendations for improvements are then detailed in the assessment report.

**―Critical Mass‖ Training**

Most lean implementation programs rely on training a ―critical mass‖ of employees in the basics of the operating philosophy before implementing changes.

**Kaizen Teams**

In lean programs, kaizen teams make specific changes to address bottlenecks or constraint areas. By using the lessons learned from these experiences, lean implementation can then spread to other areas of the operation.

**Value Stream Planning**

A typical value stream plan looks like a cross between an action plan and a Gantt chart (a planning chart that depicts the expected duration of tasks). The value stream plan sets forth the work that will be conducted to improve the value stream over an entire year.

In many cases, the facility creates a lean promotion department to oversee a team of value stream managers.

These managers lead those who are operating the process, encouraging them to take responsibility for cost factors, quality considerations, and product delivery, while also mapping and leading implementation of the future state map.

**Quality management**

Quality management ensures that an organization, product or service is consistent. It has **four** main components: quality planning, quality control, quality assurance and quality improvement. Quality management is focused not only on product and service quality, but also on the means to achieve it. Quality management, therefore, uses quality assurance and control of processes as well as products to achieve more consistent quality.

# Principles

The International Standard for Quality management (ISO 9001:2008) adopts a number of management principles that can be used by top management to guide their organizations towards improved performance.

1. **Customer focus**

Since the organizations depend on their customers, they should understand current and future customer needs, should meet customer requirements and should try to exceed the expectations of customers. An organization attains customer focus when all people in the organization know both the internal and external customers and also what customer requirements must be met to ensure that both the internal and external customers are satisfied.

2. **Leadership**

Leaders of an organization establish unity of purpose and direction of it. They should go for creation and maintenance of such an internal environment, in which people can become fully involved in achieving the organization's quality objective.

3. **Involvement of people**

People at all levels of an organization are the essence of it. Their complete involvement enables their abilities to be used for the benefit of the organization; however, the ultimate key decisions are made by the project manager.

4. **Process approach**

The desired result can be achieved when activities and related resources are managed in an organization as a process.

5. **System approach to management**

An organization's effectiveness and efficiency in achieving its quality objectives are contributed by identifying, understanding and managing all interrelated processes as a system. Quality Control involves checking transformed and transforming resources in all stages of production process.

6. **Continual improvement**

One of the permanent quality objectives of an organization should be the continual improvement of its overall performance, leveraging clear and concise PPMs (Process Performance Measures).[

7. **Factual approach to decision making**

Effective decisions are always based on the data analysis and information. An organisation must be ready to consider all facts that an organization is surrounded by.

8. **Mutually beneficial supplier relationships**

Since an organization and its suppliers are interdependent, therefore a mutually beneficial relationship between them increases the ability of both to add value.

# CHAPTER TEN

# PROMOTING GOOD COORPORATE GOVERNANCE

## *Rights of Shareholders*

All shareholder rights shall be recognized, respected and protected.

***Basic shareholder rights include:***

- To secure methods of ownership registration;
- To convey or transfer shares;
- To obtain relevant information on the corporation on a timely and regular basis;
- To participate and vote in general shareholder meetings;
- To elect members of the Board; and
- To share in the residual profits of the company.

***Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as:***

- Amendments to the statutes, or articles of incorporation or similar governing documents of the company;
- The authorization of additional shares; and
- Extra-ordinary transactions that in effect result in the sale of the company

***Shareholders shall have the opportunity to participate effectively and vote in general shareholder meetings and shall be informed of the rules, including voting procedures that govern general shareholder meetings:***

- Shareholders shall be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meetings.
- Opportunity shall be provided for shareholders to ask questions of the Board and to place items on the agenda at general meetings, subject to reasonable limitations.
- Shareholders shall be able to vote in person or in absentia, and equal effect shall be given to votes whether cast in person or in absentia.
- Shareholders shall be provided with adequate information on competencies required on the Board and given options to elect directors from amongst a range of qualified, competent, fit and proper persons.

***Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership shall be disclosed.***

***The Board shall endeavour to ensure that markets for corporate control are allowed to function in an efficient and transparent manner. In this regard, the Board shall always seek to ensure that:***

- ♦ The rules and procedures governing the acquisition of corporate control in the capital market, and extraordinary transactions such as mergers and sales of substantial portions of corporate assets shall be clearly articulated and disclosed so that investors understand their rights and recourse.
- ♦ Transactions shall occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
- ♦ Anti-take-over devices shall not be used to shield management from accountability.
- ♦ Shareholders, including corporate investors, consider the costs and benefits of using their voting rights.

***The Board of Directors shall ensure that there is equitable treatment of all shareholders. In particular the Board shall ensure that:***

- ♦ All shareholders of the same class are treated equally.
- ♦ Equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders shall have the opportunity to obtain effective redress for violation to their rights.
- ♦ Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about voting rights affiliated with all classes of shares before they purchase them. Any changes in voting rights within or between classes of shares should be subject to shareholder vote.
- ♦ Votes shall be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
- ♦ Processes and procedures for general shareholder meetings shall allow for equitable treatment of all shareholders.
- ♦ Company procedures do not make it unduly difficult or expensive to cast votes.
- ♦ Self-dealing and insider trading are prohibited.
- ♦ Members of the Board and managers disclose their material interests in transactions on matters affecting the corporation.

***The Shareholders in turn have a duty and are well advised to exercise the supreme authority of the company in general meetings to hold the Board accountable for stewardship of the company.***

***Responsibilities to Other Stakeholders***

The Board of Directors and the company recognize the rights of stakeholders as established by law and shall encourage active co-operation between the company and its stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises. In this regard, the Board of Directors shall:

- ♦ Ensure that the rights of stakeholders that are protected by law are respected.
- ♦ Where stakeholder interests are protected by law, ensure that stakeholders have the opportunity to seek effective redress for any violation of their rights.

♦ Permit and facilitate performance-enhancing mechanisms for stakeholder participation.
♦ Ensure that where stakeholders participate in performance-enhancing mechanisms, they have access to all relevant information.

***Authority and Duties of Shareholders***

Shareholders of the company shall jointly and severally protect, preserve and actively exercise the supreme authority of the company in general meetings. They have a duty, jointly and severally, to exercise that supreme authority to:

♦ Ensure that only competent and reliable persons who can add value to the company are elected or appointed to the Board of Directors;
♦ Ensure that the Board of Directors is constantly held accountable and responsible for the efficient and effective governance of the company.
♦ Change the composition of a Board of Directors that does not perform to expectation or in accordance with the mandate of the corporation.

***Leadership of the Company***

The Board of Directors shall exercise leadership, enterprise, integrity and sagacious judgment in directing the company so as to achieve continuing prosperity for the company and shall always act in the best interests of the company.

***Role and Functions of the Board***

The Board of Directors shall exercise all the powers of the company subject only to the limitations contained in the law and the memorandum and articles of incorporation.

In this regard, it is expected that the Board of Directors shall fulfill the following functions:

♦ Exercise leadership, enterprise, integrity and sound judgments in directing the corporation so as to achieve continuing prosperity and to act in the best interest of the enterprise while respecting the principles of transparency and accountability;
♦ Ensure that through a managed and effective process, board appointments are made that provide a mix of proficient directors, each of whom is able to add value and bring independent judgment to bear on the decision-making process;
♦ Determine the corporation‘s purpose and values, determine the strategy to achieve its purpose and to implement its values in order to ensure it survives and thrives, and ensure that procedures and practices are in place that protect the corporation‘s assets and reputation;
♦ Monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans;
♦ Ensure that the corporation complies with all relevant laws, regulations and codes of best business practice;
♦ Ensure that the corporation communicates with shareholders and other stakeholders effectively;

♦ Serve the legitimate interest of the shareholders and the corporation and account to them fully;
♦ Identify the corporation‘s internal and external stakeholders and agree on a policy, or policies determining how the corporation should relate to them;
♦ Ensure that no one person or a block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the Chief Executive Officer and Chairman, and by having a balance between executive and non-executive directors;
♦ Regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times;
♦ Regularly assess its performance and effectiveness as a whole, and that of the individual directors, including the Chief Executive Officer;
♦ Appoint the Chief Executive Officer and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the corporation, ensure that there is adequate training in the corporation for management and employees, and a succession plan for senior management;
♦ Ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain effectively competitive;
♦ Identify key risk areas and key performance indicators of the business and monitor these factors;
♦Ensure annually that the corporation will survive, thrive and continue as a viable going concern.

**In Order to fulfill these functions, the Board of Directors shall:**

♦ Meet regularly and retain full and effective control over the company.
♦ Evolve procedures for the selection and removal of individual directors (including the chairman and chief executive) to facilitate regular alteration of the mix and composition of the Board ensuring relevant rejuvenation.
♦ Define the limits of authority of the Chief Executive and other top executives.
♦ Compile and communicate company policies, strategies etc. covering style of operation; external and internal relationships; markets and business; required rates of return and performance standards; growth and change policies; planning and budgetary procedures.
♦ Review and approve strategic plans and arrange that meaningful plans are produced at all levels on an on-going basis covering the longest realistic time-scale.
♦ Determine the (actual and potential) total resources of the company in terms of men, money, methods, equipment etc. and market position, and allocate these by unit and time-scale, defining closely what returns are expected and when.
♦ Devote sufficient time to their responsibilities.
♦ Structure and organize the company.
♦ Monitor management performance.
♦ Map out the mechanisms for internal and external liaison and communications.
♦ Define how the Board will operate including:
- What information or reports it requires on a monthly or quarterly basis.
- How, with what data, and by what means, it will constantly monitor management performance and the financial progress of the company.
- How it will evaluate its own performance at least once every year.

♦ Ensure that the company is properly managed and for the attainment of lawful objectives.
♦ Ensure that the company's affairs are not managed or conducted in a manner oppressive to any of its shareholders or for fraudulent purposes.
♦ Ensure that the company complies with all statutory requirements.

***Composition of the Board***

The Board shall include a balance of executive and non-executive directors (including independent non-executive directors) such that no individual or group of individuals or interests can dominate its decision taking.

***The Board shall be chaired by an independent director who is not managing the company.***

There are two key tasks at the top of the company, that of running the Board and that of the Chief Executive responsible for running the company. Therefore as a general rule, there is a clear division of these roles to ensure that a balance of power and authority is maintained, and that no one individual has unfettered powers of decision. Where these roles are combined, the reasons thereof shall be publicly explained.

**The roles of the Chairman are:**

♦ To lead the Board;
♦ To chair meetings of the Board and members, ensuring order, proper conduct of meetings, affording participants a reasonable opportunity to speak, ensuring decisions are fairly made, deciding on technicalities and to cast the deciding vote in case of ties;
♦ To organize and facilitate a balance of internal and external relationships, and ♦ To facilitate effective Board management.

***Independent non- executive directors shall be independent of management, and free from any business or other relationship which would interfere with the exercise of their ability to bring an independent judgment to bear on issues of strategy, performance, resources, key appointments and standards of conduct. Independent non-executive directors shall be relied upon in matters where there is potential for conflict of interest e.g.:***

♦ Financial reporting (Audit Committee)
♦ Nomination and remuneration of directors ♦ Evaluation of Board performance

It is suggested that:

♦ The company must contain at least one third of its members as non-executive directors.
♦ Persons with full time employment in any company or organization should not hold many non-executive directorships elsewhere [indicatively, not more that two].
♦ Persons without full-time employment in one organization (professional directors, consultants etc.) should not hold more than ten non-executive directorships.

♦ Executives from subsidiaries, the parent company or any other of its acquisitions cannot become non-executive directors on the parent company.
♦ Suppliers, direct customers or other trading associates of the company cannot become non-executive directors of the company.
♦ Persons with prior professional or social relationships with directors of the company cannot become non-executives directors in the company.

## THE COMPANY SECRETARY

**The company must always have a qualified, competent, fit and proper company secretary** who must have the requisite knowledge and experience necessary to undertake the statutory duties and responsibilities of the post and advise the Board. The Company Secretary should have responsibility for ensuring that the company adheres to this code of best practice for corporate governance.

### SUMMARY CORE DUTIES OF THE COMPANY SECRETARY

The following list includes both those duties which are legal obligations as well as those which result from Best Practice. This is not a comprehensive list and the Company Secretary may have to use their initiative to ensure that all core duties are fulfilled. The Company Secretary will also have to refer to all relevant legislation.

The Company Secretary will need to fulfill the following duties:

***Board Meetings***

Facilitating the smooth operation of the company‘s formal decision making and reporting machinery; organizing board and board committee meetings [e.g. audit, remuneration, nomination committees etc]; formulating meeting agendas with the chairman and/or the chief executive and advising management on content and organization of memoranda or presentations for the meetings; collecting, organizing and distributing information, documents or other papers required for the meeting; ensuring that all meetings are minuted and that the minute books are properly maintained and that all Board committees are properly constituted and provided with clear terms of reference.

***General Meetings***

Ensuring that an Annual General Meeting is held in accordance with the requirements of the Companies Act and the company‘s Articles of Association; obtaining internal and externa l agreement to all documentation for circulation to shareholders; preparing and issuing notices of meetings, and distributing proxy forms; preparing directors for any shareholder questions and helping them create briefing materials; overseeing the preparations for security arrangements.

At meetings, ensuring that proxy forms are correctly processed and that the voting process is carried out correctly; co-ordinating the administration and minuting of meetings.

***Memorandum & Articles of Association***

Ensuring that the company complies with its Memorandum and Articles of Association; drafting and incorporating amendments in accordance with correct procedures.

***Stock Exchange Requirements***

Monitoring and ensuring compliance with the Stock Exchange requirements as well as supervising the implementation of the model code and/or the company code for dealing in the company‘s securities, as appropriate; managing relations with the Stock Exchange through the company‘s brokers; releasing information to the market; ensuring the security of unreleased price-sensitive information; making applications for listing of additional issues of securities.

***Statutory Registers***

Maintaining the following statutory registers:

♦ Members
♦ Mortgage and charges;
♦ Directors and secretary;
♦Directors‘ interests in shares and debentures;
♦ Interests in voting shares;
♦ Debenture holders [if applicable].

***Statutory Returns***

Filing information with the Registrar of Companies to report certain changes regarding the company or to comply with requirements for periodic filing. Of particular importance in this regard are:

♦ Annual returns
♦ Report & accounts;

♦ Returns of allotments;
♦ Notices of appointment, removal and resignation of directors and/or the Company Secretary;
♦ Notices of removal or resignation of the auditors;
♦ Change of registered office;
♦ Resolutions in accordance with the Companies Act.

***Report & Accounts***

Co-ordinating the publication and distribution of the company‘s annual report and accounts and interim statements, in consultation with the company‘s internal and external advisers, in particular, when preparing the directors‘ report.

***Share Registration***

Maintaining the Company‘s register of members; dealing with transfers and other matters affecting share-holding; dealing with queries and requests from shareholders.

***Shareholder Communications***

Communicating with the shareholders [e.g. through circulars]; arranging payment of dividends and interest; issuing documentation regarding rights issues, capitalization issues, and maintaining good shareholder relations; maintaining good relations with institutional shareholders and their investment committees.

***Shareholder Monitoring***

Monitoring movements on the register of members to identify any apparent _stake-building‘ in the company‘s shares; making appropriate enquiries of members as to the beneficial ownership of holdings.

***Share and Capital Issues and Restructuring***

Implementing properly authorized changes in the structure of the company‘s share and loan capital; devising, implementing and administering directors‘ and employees‘ share participation schemes.

***Acquisitions, Disposals & Mergers***

Participating as a key member of the company team established to implement corporate acquisitions, disposals and mergers; protecting the company‘s interests by ensuring the effectiveness of all documentation; ensuring that due diligence disclosures enable proper commercial evaluation prior to completion of a transaction; ensuring that the correct authority is in place to allow timely execution of documentation.

***Corporate Governance***

Continually reviewing developments in corporate governance; facilitating the proper induction of directors into their role; advising and assisting the directors with respect to their duties and responsibilities, in particular compliance with company law and, if applicable, Stock Exchange requirements; counselling them when preparing presentations and memoranda.

***Non-Executive Directors***

Acting as a channel of communication and information for non-executive directors.

***Company Seal***

Ensuring the safe custody and proper use of any company seals.

***Registered Office***

Establishing and administering the registered office; attending to the receipt, co-ordination and distribution of official correspondence received by the company, sent to its registered office; ensuring the provision of facilities for the public inspection of company register and documents.

***Company Identity***

Ensuring that all business letters, notices and other official publications of the company show the name of the company and any other information as required by the statutes and that the company‘s name is displayed conspicuously outside all places of business.

***Subsidiary Companies***

Ensuring that procedures are in place for the correct administration of subsidiary companies and that correct information is given to the holding company; maintaining a record of the group‘s structure.

***General Compliance***

Monitoring and laying in place procedures which allow for compliance with relevant regulatory and legal requirements, in particular under the Companies Acts, including legal requirements on retention of documents; retaining the minimum set of records required for commercial reasons; ensuring that procedures are in place to allow adequate historical archives to be maintained.

## Internal and external corporate governance controls

**Mechanisms and controls**

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are both internal monitoring systems and external monitoring systems. Internal monitoring can be done, for example, by one (or a few) large shareholder(s) in the case of privately held companies or a firm belonging to a business group. Furthermore, the various board mechanisms provide for internal monitoring. External monitoring of managers' behavior, occurs when an independent third party (e.g. the external auditor) attests the accuracy of information provided by management to investors. Stock analysts and debt holders may also conduct such external monitoring. An ideal monitoring and control system should regulate both motivation and ability, while providing incentive alignment toward corporate goals and objectives. Care should be taken that incentives are not so strong that some individuals are tempted to cross lines of ethical behavior, for example by manipulating revenue and profit figures to drive the share price of the company up.

**Internal corporate governance controls**

Monitors activities and then take corrective action to accomplish organisational goals. Examples:

- **Monitoring by the board of directors**: The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance.Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, *ex ante*. It could be argued, therefore, that executive directors look beyond the financial criteria.
- **Internal control procedures and internal auditors**: Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting
- **Balance of power**: The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.
- **Remuneration**: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.
- **Monitoring by large shareholders** and/or **monitoring by banks and other large creditors**: Given their large investment in the firm, these stakeholders have the incentives, combined with the right degree of control and power, to monitor the management.

**External corporate governance controls**

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include:

- competition
- debt covenants
- demand for and assessment of performance information (especially financial statements)
- government regulations
- managerial labour market
- media pressure
- takeovers

# CHAPTER ELEVEN

# COMPOSITION, APPOINTMENT AND DUTIES OF DIRECTORS

## *Appointments to the Board*

There will be formal and transparent procedures for nomination and appointment of new directors to the Board. In this regard:

♦ There shall be set up a search and nominations committee of the Board.
♦ The Board of Directors will formally review its composition and performance at least once every year to ensure that:

- The mix of membership is appropriate and compatible with the needs of the Board and company.
- Every non-executive director commits adequate time to his responsibilities and contributes effectively.

*[Each non-executive director should commit at least two days per month to his duties as a director and the actual time spent shall be recorded and reflected in the annual report]*.

♦ Based on the priority needs of the Board and the Company, the nominations committee will recommend to the Board qualified, competent fit and proper persons to be nominated for election to the Board.
♦ All directors shall be required to submit themselves for re-election at regular intervals and at least once every three years.
♦ Service contracts of Executive Directors shall not exceed three years but these are renewable with the approval of shareholders on the recommendation of the Board.

## *Directors' Remuneration*

In order to avoid potential conflict of interest, the Board of directors shall set up independent remuneration committee to determine the remuneration of respective individual executive directors. The committee shall make a report to the shareholders every year.

The Committee shall:

♦ Establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual executive directors.
♦ Ensure that the level of remuneration shall be sufficient to attract and retain the quality and calibre of directors needed to run the company successfully while the make up should be so

structured as to link corporate and individual performance.

- ♦ Ensure that the company‘s annual report contains a statement of the remuneration policy and details of the remuneration and benefits of each director, including family-related benefits.

### Disclosures of Information by Directors

On first appointment and at regular intervals (at least once every year), or at any time when circumstances change, all directors shall, in good faith, disclose to the Board for recording and disclosure to the external auditors, any business or other interests that are likely to create a potential conflict of interest, including:

- All business interests (direct or indirect) in any other company, partnership or other business venture.
- Membership in trade, business or other economic organizations.
- Their shareholding, share options and/or other interest in the company.
- Any interest (direct or indirect) in any transaction with the company.
- Any gifts, monies, commissions, benefits or other favours extended or received from whatsoever party in respect of or in relation to any business dealings with the company.

At any time when a director resigns or is removed from office before the expiry of his term, he shall disclose to the company‘s external auditors and if necessary to the shareholders (if the reason for removal or resignation is refusal to compound fraud, corruption or other activities or behaviour incompatible with the shareholders‘ interests) the reasons for his resignation or removal.

### Supply of Information to Directors

For Board members to exercise informed, intelligent, objective and independent judgments on corporate affairs, they shall have access to accurate, relevant and timely information. In this regard:

- ♦ There shall be established a formal procedure to enable independent directors to take professional advice on any matter pertinent to their functions if and where they deem it necessary and at the company‘s expense but subject always to the limitations, restrictions and conditions stipulated by the Board.
- ♦ All directors shall have unlimited access to the advice and services of the Company Secretary who has a statutory duty to advice the Board on maters of procedures, rules and regulations, and to any other professional officer of the company.
- ♦ It is the duty of every director to demand and obtain any information he deems critical to the performance of his duties as a director.

### Directors’ Training and Development

The weighty responsibilities placed upon a director, the level of commitment called for and the fast-changing corporate environment dictates that the company must now increasingly prepare those expected to assume these roles.

It is therefore recommended that all directors shall receive some formal training on their role, duties, responsibilities and obligations as well as Board practices and procedures on first appointment. This is particularly critical for those with no previous Board experience.

It is desirable that all company directors are exposed, at least once every three years, on matters relevant to legal reforms, corporate governance, changing corporate environment, business/commercial risks and other matters that may be of interest in the execution of their role.

It is currently suggested that initial training of directors shall cover, inter alia:

- ♦ Role, duties and responsibilities of the Board and directors.
- ♦ Rights and obligations of a director.
- ♦ Statutory liabilities and duties of a director under criminal and company law.
- ♦ Board practices and procedures.
- ♦ Corporate strategy and organization.
- ♦ Disclosure and communication policies.
- ♦ Financial management systems, internal control procedures and internal audit.
- ♦ External Audit and the Board.
- ♦ The Corporate Environment.
- ♦ Performance targeting, monitoring and evaluation.
- ♦ Risk management.
- ♦ Information Technology and information to the Board.
- ♦ Any other matters of interest to the Board.

## *Accounts: Audit and Disclosure*

It is the statutory duty of directors, jointly and severally, to cause to be kept proper and accurate books of accounts in respect to all sums of money received and expended by the company, and the matters in respect of which receipt or expenditure takes place; all sales and purchases by the company; and of all the assets and liabilities of the company, as necessary to give with reasonable accuracy at anytime, the financial position of the company at that time; and to lay before the company‘s annual general meeting, a profit and loss account and a balance sheet reflecting a true and fair view of the profit or loss of the company and of the state of affairs of the company.

***Consequently the Board of Directors is responsible for:***

Maintaining adequate systems of financial management and internal control over the company, including procedures designed to minimize the risk of fraud.
Ensuring the integrity and adequacy of the accounting and financial systems.
Ensuring that qualified, competent, fit and proper persons are employed to undertake accounting and financial responsibilities.
Ensuring that the company complies with the accounting standards applicable.

The Board shall present to the shareholders balanced and understandable assessment of the company‗s position and prospects at least once a every year and preferably every six months.

It shall also establish formal and transparent arrangements for maintaining an ―arms length‖ relationship with the external auditors, and ensure that there is timely and accurate disclosure to the shareholders of any information that would materially affect either the value or worth of their investment or earnings there-from including:

- Material changes in ownership structures, take over bids, shareholders arrangements, acquisitions, mergers, script splits and consolidations, or other arrangements.
- ♦ Material information on:

Company objectives

Financial and operating results
- Material issues relevant to governance structures and policies
- Changes or factors affecting members of the Board or key executives.
- Directors‗ remuneration and benefits.
- Government policies or legislative amendments
- Technological or other material issues affecting sources of raw materials, suppliers etc.

All information affecting the shareholders shall be prepared, audited, [where appropriate] and disclosed in accordance with high quality standards of financial and non-financial disclosure and objectivity.

## *Extension of Scope and Duties of Auditors*

The Board of Directors shall ensure that persons who are qualified, reliable and independent of the Board and management are appointed as auditors. In light of developments elsewhere, the Board shall endeavour to:

- ♦ Extend the definition and scope of audit to cover:-

―to provide an independent opinion to those with interest in the company that they have received from those responsible for the direction and management of the company an adequate account of:

- The proper conduct of the company's affairs;

- The company's financial performance and

position; Future risks.

♦ Facilitate an extension of Auditors duties in regard to:

Reporting on whether the company has financial and other risk management controls

Evaluating and reporting on aspects of propriety and efficiency

Reporting directly to the Board, regulatory authorities and shareholders as appropriate, when illegal acts are discovered and to monitor basic ethical behaviour particularly in regard to the public interest

♦ Enhance the independence of the auditor from the Board and management;

♦ Extend the liability of Auditors to third parties.

## *The Role of Audit Committees*

A separate audit committee enables a Board to delegate to a sub-committee the responsibility for a thorough and detailed review of Audit matters, enables the non-executive directors to contribute an independent judgment and play a positive role in an area for which they are particularly fitted, and offers the auditors a direct link with the non-executive directors. The appointment of a properly constituted Audit Committee shall therefore be an important step in raising standards of corporate governance.

♦ The Board shall establish an Audit Committee composed of independent non-executive directors to keep under review the scope and results of audit, its effectiveness and the independence and objectivity of the auditors.

♦ The Audit Committee shall be given written terms of reference which deal adequately with their membership, authority and duties and shall meet at least twice a year.

♦ The Audit Committee will:

Review the half year and annual financial statements before submission to the Board focusing particularly on:-

- Changes in accounting policies
- Significant adjustments arising from the audit

- Major judgmental areas
- Compliance with accounting standards, disclosure and legal requirements, and

- Subject the financial statements to independent critical appraisal

- Consider appointment, remuneration and the resignation or dismissal of external auditors.
- Discuss and agree on the scope, nature and priorities of audit.

- Discuss with external auditors any reservations and problems arising in the course of audit and any audit management letters and management responses prior to the issuance of the audit certificate.
- Review and discuss with the external auditors aspects relevant to internal control procedures, risk management and internal audit.
- Review major findings on internal audit and investigations and consider management response or actions thereto.
- Undertake such other duties or function as may be assigned by the Board which are relevant to audit and investigations.

## *Other Aspects Relevant to the Collective and Individual Roles of Directors*

In order to enable every director to be more clearly aware of their collective and individual accountability and liability in regard to their acts of commission and omission, the company shall provide every director with a detailed manual covering, *inter alia*, the following:

***Accountability of Directors jointly and severally to ensure that:***

♦ They provide direction to the company.

♦ They put in place independent and viable mechanisms to evaluate performance of the company and management.

♦ They appoint competent, qualified and able executives.

♦ They evaluate and manage risk.

♦ They manage effectively and efficiently all stakeholder relationships and reconcile any potential conflict of interest.

♦ They account for stewardship [efficient and effective use of entrusted resources] for the maximum benefit of shareholders.

♦ They ensure that the Company operates within the law and the legality of transactions.

♦ They ensure that the company operates within ethical guidelines that enhance integrity, social accountability and the reputation and credibility of the company.

™ ***Liability of directors jointly and severally in the context of:***

♦ Criminal and penal laws relevant to companies.

♦ Fiduciary trust and agency.

♦ Fraudulent trading with an insolvent company.

♦ Fraudulent promotion or misrepresentation in the promotion of the company.

♦ Personal liability for fraud, secret profits, corruption and bribery.

**Code of ethics**
The Board of Directors shall develop and put in place a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and to all who deal with it.

***Social Responsibilities***

The Board of Directors will monitor the social responsibilities of the company and promulgate policies consistent with the company's legitimate interests and good business practices. In particular, the Board of Directors shall:

♦ Promote fair, just and equitable employment policies;
♦ Promote and be sensitive to the preservation and protection of the natural environment;
♦ Be sensitive to and conscious of gender interests and concerns;
♦ Promote and protect the rights of children and other vulnerable groups;
♦ Enhance and promote the rights and participation of host communities.

***General***
The Board of Directors shall, conscious of its responsibilities to investors, suppliers, creditors, employees and the society:

♦ Issue a certificate at the end of every year confirming that it has complied with the law, conducted its affairs in accordance with the best principles and practices of corporate governance and that to the best of the knowledge of the Board and management, no person, employee or agent acting on behalf of the company with the knowledge or authority of the Board or management, committed any offence under the Prevention of Corruption Act or indulged in any unethical behaviour in the conduct of the company's business, or been involved in money laundering or any practice or activity contrary to national laws or international conventions.
♦ Publish a Social Responsibility report every year indicating how it has dealt with its social and environmental responsibilities.

## *An All-inclusive Code of Ethics for Enterprise and All Who Deal With the Enterprise, should cover, inter alia, the following:*

***That the Code of Ethics shall apply to:***

♦ Directors and managers of the company including non-executive directors.

♦ All employees of the company [including professionals and consultants].

♦ The owners and shareholders of the company [where they are different from the directors or managers].

♦ Suppliers and lenders of the company.

♦ Other relevant stakeholders.

***Objectives of the Code of Ethics***

- To set out the values, ethics and beliefs upon which the company premises its policies and behaviour.
- To set down and promulgate the basic ethical principles to be observed.
- To secure adherence to uniform principles of good practice.
- To promote and maintain confidence in the integrity of the corporation.
- To harmonise the concepts of social responsibility, public accountability and profitability.
- To prevent and resist the development of undesirable practices.
- To lay down standards for personal and corporate behaviour.

***Personal Conduct***

- Personal standards and integrity
- Professional expectation and duty of care to render faithful service
- Confidentiality and trust
- Loyalty, fiduciary responsibility and transparency
- Duty to community
- Compliance with the law
- Declaration of personal interest and conflict of interest.

***Corporate Behaviour***

- Compliance with the law
- Quality standards and responsibility to customers.
- Integrity of relationships.
- Transparency and accountability of the corporation
- Conflict of interest
- Privacy of records and information
- Insider information
- Policy on corruption, bribes, gifts and entertainment
- Social responsibility and accountability, etc.

***Specific Obligations of:***

***a) Directors and Managers:***

- To shareholders and the company
- To employees

- To customers
- To suppliers and lenders
- To host communities
- To the society at large
- To the State

***(b) Employees and Professionals:***

- To owners of the company
- To managers/directors
- To the enterprise
- To fellow employees
- To the society at large

***(c) Owners of Enterprise:***

- To the company
- To directors and managers
- To employees and stakeholders
- To other shareholders
- To customers and consumers
- To the community at large

***(d) Financiers, Lenders, Suppliers, etc:***

- To enterprise
- To managers/directors
- To customers
- To society at large

***(e) Host Communities:***

- To the Company
- To Directors and Managers
- To the society at large
- To the State

***(f) Trade Associations:***

- To the company
- To Directors and Managers
- To the Community/society

***(g) The State:***

- To the Company
- To Directors and Managers
- To employees
- To the Community and Society

[It is suggested that special mention should be made in the code of ethics in regard to the duty of care , responsibility and liability attaching to professionals who are called upon to authenticate and issue certificates of compliance upon which third parties dealing with the company are expected to rely].

## FRAMEWORK FOR BOARD AND INDIVIDUAL DIRECTOR PERFORMANCE EVALUATION

***Background***

The Board is appointed to guide, lead, monitor, and conduct all aspects of company business and to supervise or control business activities. There are considerable benefits in appointing directors from the wider community but there is a definite level of risk.

Risk can be considerably reduced and performance enhanced if appointees are briefed at the outset as part of the selection and appointment process. Risk is further reduced if directors are obliged to take part in a formal evaluation of directors and Board performance each year.

The information obtained from the evaluation provides a basis for the appointment and reappointment. A formal evaluation ensures that the Board is adding value to the organization and fulfilling its responsibilities to the organisation and to the stakeholders.

***Board Evaluation***

Performance measurement enhances the effectiveness of the Director and thus further reduces the risk to the organisation. The obligation to have an annual formal evaluation ensures that the Board takes time to evaluate its own performance.

The primary purpose is to enhance not only the performance, effectiveness and contribution of each director, but also to improve the effectiveness of the Board as a whole in fulfilling its role.

Formal evaluation once a year should not replace informal feedback on performance on an ongoing basis, although establishing a formal evaluation methodology provides an objective framework for analytical feedback to the Board and members for the appointment processes.

The framework provides a mechanism for ensuring that the Chairman is accountable when giving advice about Board members to the Board [and Chief Executive] and fully responsible for the effective performance of the Board.

Directors are sensitive about Board evaluation. Some directors believe there is an element of voluntary devoted service, they believe their contribution should be gratefully received and not questioned.

Other Directors are grateful for an objective framework in which to compare their performance with others or to improve their contribution around the Board table. Within this framework, experienced Directors can offer practical support to first-time Directors.

So that experienced Directors do not find the process insulting, the purpose of the evaluation should be clearly communicated.

Chief Executives are increasingly under scrutiny, with their pay package being dependent on their performance. Peer review is an integral part of professionals monitoring their own performance. It is equally relevant that Directors also have a performance evaluation.

Through this process members and stakeholders can ensure that the Board is adding value to the organization and fulfilling its legal obligations.

Director evaluations are achieving greater importance in the Corporate Sector with introduction of codes of best governance practice.

***Skills Mix***

The successful dynamics of a Board depends on a combination of skills. The evaluation process identifies individual Directors' special attributes and their particular contribution to Board deliberations.

The self-appraisal of Board effectiveness and evaluation of individual Directors will identify any skills gaps in the composition of the Board, providing important input into the selection and appointment process.

***Letter of Appointment***

It is advisable that all directors be issued with letters of appointment indicating what they are expected to do and the terms and conditions of appointment.

The obligation to take part in director and Board evaluations will be referred to in the Letter of Appointment and the accompanying terms of reference.

Acceptance by all appointees will remove the suspicion that only some Directors are being evaluated.

***Board Training and Re-appointments***
A formal mechanism for evaluating individuals' contributions to the Board provides valuable input to selection procedures. Some Directors might not ―score‖ well simply due to inexperience, but training needs can be identified resulting in a bigger pool of capable Directors.

Often new Directors such as those from the management ranks of corporate bodies, though capable as managers, are not familiar with the role of the Board in corporate governance.

The formality of an evaluation process provides a framework for identifying the training needs in a professional way and, where necessary, to explain where re-appointment is not appropriate.

***Board Goals***
The evaluation process is completed by a full Board discussion to identify key objectives for the functioning of the Board for the subsequent year.

***Confidentiality***
Evaluation material about Directors should be sought on the express basis of confidentiality. Those responding should be advised that the information they give is received on a confidential basis and that their identity will be protected as far as the law allows. This should allow free expression of views.

***Methodology***
Evaluation can involve self-evaluation by peers or by a ―consultant‖, the former relying on the Board members themselves, the latter providing an external viewpoint.

Board evaluation by peers can be based on checklists for the Directors and the Chairman. The more detailed and explicit the checklists, the easier to execute and to generate transparent, comparable, written information.

**Chairman**
The Chairman's own performance is linked both to the performance of each director as well as the functioning of the Board as a whole. Each director will assess the Chairman based on a checklist relating specifically to the Chairman's duties.

Should the Chairman's performance be considered unsatisfactory, the Deputy Chairman will have a discussion with the Board members to determine whether members or appointing authority or the shareholders should be alerted.

**Directors**
The Chairman assesses Directors in a one-on-one interview set annually, or more frequently if necessary, with reference to a director's checklist. Directors are encouraged to complete a self-evaluation questionnaire prior to the Chair's discussion.

Should a director‘s performance not be satisfactory, the Chairman should identify training needs or indicate areas to be addressed or, if necessary, indicate that recommendation to reappoint will not be forthcoming.

The director takes the opportunity to report back on their assessment of the Chairman during this interview.

**Functioning of the Board**

Although this is partly covered within the performance of the Chairman, a separate Board discussion, included as an agenda item at least once a year will focus on the effectiveness of the Board as a team and the way it functions e.g. input into strategic planning, monitoring of the Chief Executive, relations with stakeholders and the servicing of the Board, that is, information supplied, time frames, information conveyed between Board meetings etc.

# CHAPTER TWELVE

# ENTERPRISE RISK MANAGEMENT (ERM)

## Introduction

Enterprise risk management (ERM) is an organization‘s enterprise risk competence—the ability to understand, control, and articulate the nature and level of risks taken in pursuit of business strategies—coupled with accountability for risks taken and activities engaged in, which contributes to increased confidence shown by stakeholders.

The basic concept of enterprise risk management has been applied, more or less, in several industries for well over a decade. The changing regulatory environment, economic turmoil, and growing complexity of products, tools, and risks has, among other influences, helped to launch the practice of enterprise risk management into the financial services area. In this respect ERM—in the banking world—is very much in its early development, though much progress has been made.

By definition, the business of banking exposes the organization to a wide variety of risks. The ERM framework is designed to support the depth and breadth of activities by providing a structured approach for identifying, measuring, controlling, and reporting on the significant risks faced by an organization. Specific risk management (e.g., credit, operational, market), capital management, and liquidity management provide the essential underpinnings to an ERM framework.

## ERM frameworks

There are various important ERM frameworks, each of which describes an approach for identifying, analyzing, responding to, and monitoring risks and opportunities, within the internal and external environment facing the enterprise. Management selects a *risk response strategy* for specific risks identified and analyzed, which may include:

1. Avoidance: exiting the activities giving rise to risk
2. Reduction: taking action to reduce the likelihood or impact related to the risk
3. Alternative Actions: deciding and considering other feasible steps to minimize risks.
4. Share or Insure: transferring or sharing a portion of the risk, to finance it
5. Accept: no action is taken, due to a cost/benefit decision

Monitoring is typically performed by management as part of its internal control activities, such as review of analytical reports or management committee meetings with relevant experts, to understand how the risk response strategy is working and whether the objectives are being achieved.

**Types and examples include:**

**Hazard risk**
Liability torts, Property damage, Natural catastrophe

**Financial risk**
Pricing risk, Asset risk, Currency risk, Liquidity risk

**Operational risk**
Customer satisfaction, Product failure, Integrity, Reputational risk; Internal Poaching; Knowledge drain

**Strategic risks**
Competition, Social trend, Capital availability
The risk management process involves:

1. **Establishing Context:** This includes an understanding of the current conditions in which the organization operates on an internal, external and risk management context.
2. **Identifying Risks:** This includes the documentation of the material threats to the organization‘s achievement of its objectives and the representation of areas that the organization may exploit for competitive advantage.
3. **Analyzing/Quantifying Risks:** This includes the calibration and, if possible, creation of probability distributions of outcomes for each material risk.
4. **Integrating Risks:** This includes the aggregation of all risk distributions, reflecting correlations and portfolio effects, and the formulation of the results in terms of impact on the organization‘s key performance metrics.
5. **Assessing/Prioritizing Risks:** This includes the determination of the contribution of each risk to the aggregate risk profile, and appropriate prioritization.
6. **Treating/Exploiting Risks:** This includes the development of strategies for controlling and exploiting the various risks.
7. **Monitoring and Reviewing:** This includes the continual measurement and monitoring of the risk environment and the performance of the risk management strategies.

**Four categories of business objectives**

This enterprise risk management framework is still geared to achieving an entity's objectives; however, the framework now includes four categories:

- Strategic: high-level goals, aligned with and supporting its mission
- Operations: effective and efficient use of its resources
- Reporting: reliability of reporting
- Compliance: compliance with applicable laws and regulations

**Eight framework components**

The eight components of enterprise risk management encompass the previous five components of the Internal Control-Integrated Framework while expanding the model to meet the growing demand for risk management:

**Internal environment:** The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.

**Objective setting:** Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

**Event identification**: Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.

**Risk assessment:** Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.

**Risk response:** Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.

**Control activities:** Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

**Information and communication:** Relevant information is identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.

**Monitoring:** The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

## Implementing an ERM program

### Goals of an ERM program

Organizations by nature manage risks and have a variety of existing departments or functions ("risk functions") that identify and manage particular risks. However, each risk function varies in capability and how it coordinates with other risk functions. A central goal and challenge of ERM is improving this capability and coordination, while integrating the output to provide a unified picture of risk for stakeholders and improving the organization's ability to manage the risks effectively.

### Typical risk functions

The primary risk functions in large corporations that may participate in an ERM program typically include:

- Strategic planning - identifies external threats and competitive opportunities, along with strategic initiatives to address them
- Marketing - understands the target customer to ensure product/service alignment with customer requirements
- Compliance & Ethics - monitors compliance with code of conduct and directs fraud investigations
- Accounting / Financial compliance - directs the Sarbanes-Oxley Section 302 and 404 assessment, which identifies financial reporting risks
- Law Department - manages litigation and analyzes emerging legal trends that may impact the organization
- Insurance - ensures the proper insurance coverage for the organization
- Treasury - ensures cash is sufficient to meet business needs, while managing risk related to commodity pricing or foreign exchange
- Operational Quality Assurance - verifies operational output is within tolerances
- Operations management - ensures the business runs day-to-day and that related barriers are surfaced for resolution
- Credit - ensures any credit provided to customers is appropriate to their ability to pay
- Customer service - ensures customer complaints are handled promptly and root causes are reported to operations for resolution
- Internal audit - evaluates the effectiveness of each of the above risk functions and recommends improvements

### Common challenges in ERM implementation

Various consulting firms offer suggestions for how to implement an ERM program. Common topics and challenges include:

Identifying executive sponsors for ERM.

- Establishing a common risk language or glossary.
- Describing the entity's risk appetite (i.e., risks it will and will not take)
- Identifying and describing the risks in a "risk inventory".
- Implementing a risk-ranking methodology to prioritize risks within and across functions.
- Establishing a risk committee and or Chief Risk Officer (CRO) to coordinate certain activities of the risk functions.
- Establishing ownership for particular risks and responses.
- Demonstrating the cost-benefit of the risk management effort.
- Developing action plans to ensure the risks are appropriately managed.
- Developing consolidated reporting for various stakeholders.
- Monitoring the results of actions taken to mitigate risk.
- Ensuring efficient risk coverage by internal auditors, consulting teams, and other evaluating entities.

- Developing a technical ERM framework that enables secure participation by 3rd parties and remote employees.

**Internal audit role**

In addition to information technology audit, internal auditors play an important role in evaluating the risk management processes of an organization and advocating their continued improvement. However, to preserve its organizational independence and objective judgment, Internal Audit professional standards indicate the function should not take any direct responsibility for making risk management decisions for the enterprise or managing the risk management function.

Internal auditors typically perform an annual risk assessment of the enterprise, to develop a plan of audit engagements for the upcoming year. This plan is updated at various frequencies in practice. This typically involves review of the various risk assessments performed by the enterprise (e.g., strategic plans, competitive benchmarking, and SOX top-down risk assessment), consideration of prior audits, and interviews with a variety of senior management. It is designed for identifying audit projects, not to identify, prioritize, and manage risks directly for the enterprise.

# Role of the Board in ERM

- **Understand the entity's risk philosophy and concur with the entity's risk appetite.** Risk appetite is the amount of risk, on a broad level; an organization is willing to accept in pursuit of stakeholder value. Because boards represent the views and desires of the organization's key stakeholders, management should have an active discussion with the board to establish a mutual understanding of the organization's overall appetite for risks.

- **Know the extent to which management has established effective enterprise risk management of the organization**
  Boards should inquire of management about existing risk management processes and challenge management to demonstrate the effectiveness of those processes in identifying, assessing, and managing the organization's most significant enterprise-wide risk exposures.

- **Review the entity's portfolio of risk and consider it against the entity's risk appetite**
  Effective board oversight of risks is contingent on the ability of the board to understand and assess an organization's strategies with risk exposures. Board agenda time and information packets that integrate strategy and operational initiatives with enterprise-wide risk exposures strengthen the ability of boards to ensure risk exposures are consistent with overall appetite for risk.

- **Be apprised of the most significant risks and whether management is responding appropriately**
  Risks are constantly evolving and the need for robust information is of high demand. Regular updating by management to boards of key risk indicators is critical to effective board oversight of key risk exposures for preservation and enhancement of stakeholder value.

# Risk Response Strategies

Organizations develop risk management strategies as part of the risk framing step in the risk management process described in Chapter Three. The risk management strategies address how organizations intend to assess risk, respond to risk, and monitor risk—making explicit and transparent the risk perceptions that organizations routinely use in making both investment and operational decisions. As part of organizational risk management strategies, organizations also develop risk response strategies. The practical realities facing organizations today make risk response strategies essential—the realities of needing the mission/business effectiveness offered by information technology, the lack of trustworthiness in the technologies available, and the growing awareness by adversaries of the potential to achieve their objectives to cause harm by compromising organizational information systems and the environments in which those systems operate. Senior leaders/executives in modern organizations are faced with an almost intractable dilemma—that is, the information technologies needed for mission/business success may be the same technologies through which adversaries cause mission/business failure. The risk response strategies developed and implemented by organizations provide these senior leaders/executives (i.e., decision makers within organizations) with practical, pragmatic paths for dealing with this dilemma. Clearly defined and articulated risk response strategies help to ensure that senior leaders/executives take ownership of organizational risk responses and are ultimately responsible and accountable for risk decisions—understanding, acknowledging, and explicitly accepting the resulting mission/business risk.

There are five basic types of responses to risk:

1. Accept;
2. Avoid;
3. Mitigate;
4. Share; and
5. Transfer.

While each type of response can have an associated strategy, there should be an overall strategy for selecting from among the basic response types.
This overall risk response strategy and a strategy for each type of response are discussed below. In addition, specific risk mitigation strategies are presented, including a description of how such strategies can be implemented within organizations.

### Overall Risk Response Strategies

Risk response strategies specify:

i. Individuals or organizational subcomponents that are responsible for the selected risk response measures and specifications of effectiveness criteria (i.e., articulation of indicators and thresholds against which the effectiveness of risk response measures can be judged);

ii. Dependencies of the selected risk response measures on other risk response measures;

iii. Dependencies of selected risk response measures on other factors (e.g., implementation of other planned information technology measures);

iv. Implementation timeline for risk responses;

v. plans for monitoring the effectiveness of the risk response measures;

vi. Identification of risk monitoring triggers; and

vii. Interim risk response measures selected for implementation, if appropriate.

Risk response implementation strategies may include interim measures that organizations choose to implement. An overall risk response strategy provides an organizational approach to selecting between the basic risk responses for a given risk situation. A decision to accept risk must be consistent with the stated organizational tolerance for risk. Yet there is still need for a well-defined, established organizational path for selecting one or a combination of the risk responses of acceptance, avoidance, mitigation, sharing, or transfer. Organizations are often placed in situations where there is greater risk than the designated senior leaders/executives desire to accept. Some risk acceptance will likely be necessary. It might be possible to avoid risk or to share or transfer risk, and some risk mitigation is probably feasible. Avoiding risk may require selective reengineering of organizational mission/business processes and forgoing some of the benefits being accrued by the use of information technology organization-wide, perhaps even what organizations perceive as necessary benefits. Mitigating risk requires expenditure of limited resources and may quickly become cost-ineffective due to the pragmatic realities of the degree of mitigation that can actually be achieved. Lastly, risk sharing and transfer have ramifications as well, some of which if not unacceptable, may be undesirable. The risk response strategies of organizations empower senior leaders/executives to make risk-based decisions compliant with the goals, objectives, and broader organizational perspectives.

**Risk Acceptance Strategies**

Organizational risk acceptance strategies are essential companions to organizational statements of risk tolerance. The objective of establishing an organizational risk tolerance is to state in clear and unambiguous terms, a limit for risk—that is, how far organizations are willing to go with regard to accepting risk to organizational operations (including missions, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation. Real-world operations, however, are seldom so simple as to make such risk tolerance statements the end-statement for risk acceptance decisions. Organizational risk acceptance strategies place the acceptance of risk into a framework of organizational perspectives on dealing with the practical realities of operating with risk and provide the guidance necessary to ensure that the extent of the risk being accepted in specific situations is compliant with organizational direction.

**Risk Avoidance Strategies**

Of all the risk response strategies, organizational risk avoidance strategies may be the key to achieving adequate risk response. The pragmatic realities of the trustworthiness of information technologies available for use within common resource constraints, make wise use of those technologies arguably a significant, if not the most significant risk response. Wise use of the information technologies that compose organizational information systems is fundamentally a form of risk avoidance—that is, organizations modify how information technologies are used to change the nature of the risk being incurred (i.e., avoid the risk). Yet such approaches can be in great tension with organizational desires and in some cases, the mandate to fully automate mission/business processes. Organizations proactively address this dilemma so that:

i. Senior leaders/executives (and other organizational officials making risk-based decisions) are held accountable for only that which is within their ability to affect; and
ii. Decision makers can make the difficult risk decisions that may, in fact, be in the best interests of organizations.

**Risk Sharing and Transfer Strategies**

Organizational risk sharing strategies and risk transfer strategies are key elements in enabling risk decisions for specific organizational missions/business functions at Tier 2 or organizational information systems at Tier 3. Risk sharing and transfer strategies both consider and take full advantage of a lessening of risk by sharing/transferring the potential impact across other internal organizational elements or with other external organizations—making the case that some other entities are, in fact, wholly (transfer) or partly (share) responsible and accountable for risk. For risk sharing or risk transfer to be effective risk responses, the impact on the local environment (e.g., mission/business processes or information systems) must be addressed by the sharing or transfer (i.e., the focus must be on mission/business success, not assigning blame). In addition, risk sharing and risk transfer activities must be carried out in accordance with intra- and inter-organizational dynamics and realities (e.g., organizational culture, governance, risk tolerance). This explains why risk sharing/transfer strategies are particularly important for the sharing and/or transfer to be a viable risk response option.

**Risk Mitigation Strategies**

Organizational risk mitigation strategies reflect an organizational perspective on what mitigations are to be employed and where the mitigations are to be applied, to reduce information security risks to organizational operations and assets, individuals, other organizations, and the Nation. Risk mitigation strategies are the primary link between organizational risk management programs and information security programs—with the former covering all aspects of managing risk and the latter being primarily a part of the risk response component of the risk management process. Effective risk mitigation strategies consider the general placement and allocation of mitigations, the degree of intended mitigation, and cover mitigations at Tier 1 (e.g., common controls), at Tier 2 (e.g., enterprise architecture including embedded information security architecture, and risk-aware mission/business processes), and at Tier 3 (security controls in individual information systems). Organizational risk mitigation strategies reflect the following:

- Mission/business processes are designed with regard to information protection needs and information security requirements;
- Enterprise architectures (including embedded information security architectures) are designed with consideration for realistically achievable risk mitigations;

- Risk mitigation measures are implemented within organizational information systems and environments of operation by safeguards/countermeasure (i.e., security controls) consistent with information security architectures; and
- Information security programs, processes, and safeguards/countermeasures are highly flexible and agile with regard to implementation, recognizing the diversity in organizational missions and business functions and the dynamic environments in which the organizations operate.

Organizations develop risk mitigation strategies based on strategic goals and objectives, mission and business requirements, and organizational priorities. The strategies provide the basis for making risk-based decisions on the information security solutions associated with and applied to information systems within the organization. Risk mitigation strategies are necessary to ensure that organizations are adequately protected against the growing threats to information processed, stored, and transmitted by organizational information systems. The nature of the threats and the dynamic environments in which organizations operate, demand flexible and scalable defenses as well as solutions that can be tailored to meet rapidly changing conditions. These conditions include, for example, the emergence of new threats and vulnerabilities, the development of new technologies, changes in missions/business requirements, and/or changes to environments of operation. Effective risk mitigation strategies support the goals and objectives of organizations and established mission/business priorities, are tightly coupled to enterprise architectures and information security architectures, and can operate throughout the system development life cycle.

Traditional risk mitigation strategies with regard to threats from cyber attacks at first relied almost exclusively on monolithic boundary protection. These strategies assumed adversaries were outside of some established defensive perimeter, and the objective of organizations was to repel the attack. The primary focus of static boundary protection was penetration resistance of the information technology products and information systems employed by the organization as well as any additional safeguards and countermeasures implemented in the environments in which the products and systems operated. Recognition that information system boundaries were permeable or porous led to defense-in-depth as part of the mitigation strategy, relying on detection and response mechanisms to address the threats within the protection perimeter. In today‘s world characterized by advanced persistent threats, a more comprehensive risk mitigation strategy is needed—a strategy that combines traditional boundary protection with agile defense.

Agile defense assumes that a small percentage of threats from purposeful cyber attacks will be successful by compromising organizational information systems through the supply chain by defeating the initial safeguards and countermeasures (i.e., security controls) implemented by organizations, or by exploiting previously unidentified vulnerabilities for which protections are not in place. In this scenario, adversaries are operating inside the defensive perimeters established by organizations and may have substantial or complete control of organizational information systems. Agile defense employs the concept of information system resilience—that is, the ability of systems to operate while under attack, even in a degraded or debilitated state, and to rapidly recover operational capabilities for essential functions after a successful attack. The concept of information system resilience can also be applied to the other classes of threats including threats from environmental disruptions and/or human errors of omission/commission. The most effective risk mitigation strategies employ a combination of boundary protection and agile defenses depending on the characteristics of the threat. This dual protection strategy illustrates two important information security concepts known as defense-in-depth and defense-in-breadth.

# CHAPTER THIRTEEN

# PROFESSIONAL VALUES AND ETHICAL PRINCIPLES

## Professional Judgment

With the increasingly complex nature of global business, the need for reliable, transparent financial information is more pronounced today than ever before. The accounting profession has been and will continue to be on the front lines of the challenge to provide investors, managers, directors, regulators, and others with up-to-date, reliable, and comparable financial reporting information, while the demands placed on the profession are. We expect financial statement preparers to apply judgment in the preparation and auditors to apply judgment in the audit of financial statements in a professional manner. This involves applying relevant training, knowledge, and experience within the context provided by relevant professional and technical standards, as applicable, in making informed decisions about courses of action that are appropriate in the circumstances.

Several professional organizations have developed informational pieces discussing the need for professional judgment and professional judgment frameworks.

## Confidentiality

Confidentiality is the protection of personal information. Confidentiality means keeping a client‘s information between you and the client, and not telling others including co-workers, friends, family, etc.

## Values and ethics

**Values and ethics in simple words mean principle or code of conduct that govern transactions; in this case business transaction**. These ethics are meant to analyse problems that come up in day to day course of business operations. Apart from this it also applies to individuals who work in organisations, their conduct and to the organisations as a whole.

We live in an era of cut throat competition and competition breeds enmity. This enmity reflects in business operations, code of conduct. Business houses with deeper pockets crush small operators and markets are monopolised. In such a scenario certain standards are required to govern how organizations go about their business operations, these standards are called ethics.

**Business ethics is a wider term that includes many other sub ethics that are relevant to the respective field**. For example there is marketing ethics for marketing, ethics in HR for Human resource department and the like. Business ethics in itself is a part of applied ethics; the latter takes care of ethical questions in the technical, social, legal and business ethics.

**Origin of Business Ethics**

When we trace the origin of business ethics we start with a period where profit maximisation was seen as the only purpose of existence for a business. There was no consideration whatsoever for non-economic values, be it the people who worked with organisations or the society that allowed the business to flourish. It was only in late 1980's and 1990's that both intelligentsia and the academics as well as the corporate began to show interest in the same.

Nowadays almost all organisations lay due emphasis on their responsibilities towards the society and the nature and they call it by different names like corporate social responsibility, corporate governance or social responsibility charter. In India Maruti Suzuki, for example, owned the responsibility of maintain a large number of parks and ensuring greenery. Hindustan unilever, similarly started the e-shakti initiative for women in rural villages.

Globally also many corporations have bred philanthropists who have contributed compassion, love for poor and unprivileged. Bill gates of Microsoft and Warren Buffet of Berkshire Hathaway are known for their philanthropic contributions across globe.

Many organisations, for example, IBM as part of their corporate social responsibility have taken up the initiative of going green, towards contributing to environmental protection. It is not that business did not function before the advent of business ethics; but there is a regulation of kinds now that ensures business and organisations contribute to the society and its well being.

**Nowadays business ethics determines the fundamental purpose of existence of a company in many organisations**. There is an ensuing battle between various groups, for example between those who consider profit or share holder wealth maximisation as the main aim of the company and those who consider value creation as main purpose of the organisation.

The former argue that if an organisations main objective is to increase the shareholders wealth, then considering the rights or interests of any other group is unethical. The latter, similarly argue that profit maximisation cannot be at the expense of the environment and other groups in the society that contribute to the well being of the business.

Nevertheless business ethics continues to a debatable topic. Many argue that lots of organisations use it to seek competitive advantage and creating a fair image in the eyes of consumers and other stakeholders. There are advantages also like transparency and accountability.

## Importance of Ethics

Most of us would agree that it is ethics in practice that makes sense; just having it carefully drafted and redrafted in books may not serve the purpose. Of course all of us want businesses to be fair, clean and beneficial to the society. For that to happen, organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society and organization.

Primarily it is the individual, the consumer, the employee or the human social unit of the society who benefits from ethics. In addition ethics is important because of the following:

1. **Satisfying Basic Human Needs:** Being fair, honest and ethical is one the basic human needs. Every employee desires to be such himself and to work for an organization that is fair and ethical in its practices.
2. **Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organization. Infosys, for example is perceived as an organization for good corporate governance and social responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organization is into.
3. **Uniting People and Leadership:** An organization driven by values is revered by its employees also. They are the common thread that brings the employees and the decision makers on a common platform. This goes a long way in aligning behaviors within the organization towards achievement of one common goal or mission.
4. **Improving Decision Making:** A man‘s destiny is the sum total of all the decisions that he/she takes in course of his life. The same holds true for organizations. Decisions are driven by values. For example an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.
5. **Long Term Gains:** Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money. Tata group, one of the largest business conglomerates in India was seen on the verge of decline at the beginning of 1990‘s, which soon turned out to be otherwise. The same company‘s Tata NANO car was predicted as a failure, and failed to do well but the same is picking up fast now.
6. **Securing the Society:** Often ethics succeeds law in safeguarding the society. The law machinery is often found acting as a mute spectator, unable to save the society and the environment. Technology, for example is growing at such a fast pace that the by the time law comes up with a regulation we have a newer technology with new threats replacing the older one. Lawyers and public interest litigations may not help a great deal but ethics can.

Ethics tries to create a sense of right and wrong in the organizations and often when the law fails, it is the ethics that may stop organizations from harming the society or environment.

## Sources of Business Ethics

Ethics in general refers to a system of good and bad, moral and immoral, fair and unfair. It is a code of conduct that is supposed to align behaviors within an organization and the social framework. But the question that remains is, where and when did business ethics come into being?

Primarily ethics in business is affected by three sources - culture, religion and laws of the state. It is for this reason we do not have uniform or completely similar standards across the globe. These three factors exert influences to varying degrees on humans which ultimately get reflected in the ethics of the organization. For example, ethics followed by Infosys are different than those followed by Reliance Industries or by Tata group for that matter. Again ethical procedures vary across geographic boundaries.

## Religion

It is one of the oldest foundations of ethical standards. Religion wields varying influences across various sects of people. It is believed that ethics is a manifestation of the divine and so it draws a line between the good and the bad in the society. Depending upon the degree of religious influence we have different sects of people; we have sects, those who are referred to as orthodox or fundamentalists and those who are called as moderates. Needless to mention, religion exerts itself to a greater degree among the orthodox and to lesser extent in case of moderates. Fundamentally however all the religions operate on the principle of reciprocity towards ones fellow beings!

## Culture

Culture is a pattern of behaviors and values that are transferred from one generation to another, those that are considered as ideal or within the acceptable limits. No wonder therefore that it is the culture that predominantly determines what is wrong and what is right. It is the culture that defines certain behavior as acceptable and others as unacceptable.

Human civilization in fact has passed through various cultures, wherein the moral code was redrafted depending upon the epoch that was. What was immoral or unacceptable in certain culture became acceptable later on and vice versa.

During the early years of human development where ones who were the strongest were the ones who survived! Violence, hostility and ferocity were thus the acceptable. Approximately 10,000 year ago when human civilization entered the settlement phase, hard work, patience and peace were seen as virtues and the earlier ones were considered otherwise. These values are still pt in practice by the managers of today!

Still further, when human civilization witnessed the industrial revolution, the ethics of agrarian economy was replaced by the law pertaining to technology, property rights etc. Ever since a tussle has ensued between the values of the agrarian and the industrial economy!

## Law

Laws are procedures and code of conduct that are laid down by the legal system of the state. They are meant to guide human behavior within the social fabric. The major problem with the law is that all the ethical expectations cannot be covered by the law and specially with ever changing outer environment the law keeps on changing but often fails to keep pace. In business, complying with the rule of law is taken as ethical behavior, but organizations often break laws by evading taxes, compromising on quality, service norms etc.

## Basic Workplace Ethics for an Organization

**Rules and regulations ought to be same for everyone**. Everyone needs to attend office on time irrespective of their designation, distance of their home from the workplace, salary or status. An individual cannot come to office late just because he is the team leader and his team is already present and working on his behalf. If a day‘s salary of a clerk is deducted for coming late to work, it should be the same for the marketing manager as well.

**Company's policies need to be communicated clearly to each and every one**. There should be transparency at all levels of hierarchy. Employees are the backbone of any organization and thus they must have a say in company‘s goals and objectives.

**An organization ought to respect its employees to expect the same in return**. Rules and regulations should not be too rigid. Don‘t expect an employee to attend office two days before his marriage date. If an employee is not keeping well, please do not ask him/her to attend office unless and until there is an emergency.

Management must not forget that money is a strong motivator for employees. Everything is important, be it career, growth, job satisfaction but what is most important is employee‘s salaries. Do not unnecessary hold their salaries for a long time unless and until there is really shortage of funds. In case of marketing and sales employees, conveyance and mobile bills must be cleared at the earliest. Do not ask for unnecessary bills and documents.

**Organization should not expect employees to attend office 365 days a year**. It is the responsibility of human resource professionals to prepare the holiday calendar at the beginning of the year and circulate the same among all employees. Let employees enjoy their respective festivals and come back to work with positive energy and smile. Infact allow them to go in the festive mood two days prior to the D day. Ask them to organize pre festival bashes at the workplace. Let them dress in colourful attires and have fun. Trust me, work never suffers this way. Rather, employees feel attached to the organization and strive hard to deliver their level best every time.

**Give employees the space they require**. Key responsibility areas need to be communicated to the employees on the very first day of their joining. Roles and responsibilities need to be assigned as per an individual‘s expertise and experience. Do not expect an employee with one year experience to head the marketing team. Employees need to be trained well. Organizations need to give at least six months time to the new employees to adjust in the new environment.

It has been observed that most of the times employees crib when they are underpaid. Make sure employees get what they deserve. **Salaries should be decided in the presence of the employee and also keeping in mind an individual's role in the organization, his/her gross salary in the previous organization, responsibilities within the current system and of course his/her years of experience**. One of the major reasons as to why employees quit their jobs after a year or so is poor appraisal system. Increments ought to be directly proportional to the amount of hard work an employee puts in through out the year and also his/her performance. Unnecessary favours are against the workplace ethics.

**Do not be too strict with your employees**. Do not block all social networking sites. Blocking face book and Orkut is not the ideal way to ensure employees are working and not wasting their time. Even a 24 * 7 check would not prevent employees from wasting their time unless and until they realize it themselves. The moment, you are strict with something, people would tend to do the same more.

## Importance of Workplace Ethics

**Workplace ethics ensures positive ambience at the workplace**. Workplace ethics leads to happy and satisfied employees who enjoy coming to work rather than treating it as a mere source of burden. Employees also develop a feeling of loyalty and attachment towards the organization.

Organizations need to have fool-proof systems to measure the performances of individuals. Appraisal system needs to be designed keeping in mind employee‘s performance throughout the year and his/her career growth. Periodic reviews are essential. It is mandatory for superiors to know what their subordinates are up to. You need to know who all are going on the right track and who all need that extra push. **Workplace ethics ensures management guides and mentors their employees well**. Appraisal and salary hikes should not happen just for the name sake. Workplace ethics is important as it enables management to treat all employees as equal and think from their perspective as well. Employees must have a say in their appraisal system. Transparency is essential.

An employee is bound to move on after a year or so if he/she is not appreciated and rewarded suitably. It is indeed the organization‘s loss when employees after being trained quit and move on. Do you think it is entirely the employee‘s fault? Why would an employee move on if he/she is fully satisfied with his /her current assignment? Employees change primarily because of two reasons - Career growth and monetary benefits. Management needs to make employees feel secure about their job and career. Unnecessary favouritism is against workplace ethics. If you favour anyone just because he is your relative, the other team members are bound to feel demotivated and thus start looking for new opportunities. An individual‘s output throughout the year should decide his/her increment.

Organizations need to stand by their employees even at the times of crisis. You cannot ask your employees to go just because you don‘t need them anymore or your work is over. Such a practice is unethical. How can you play with someone‘s career? If an individual has performed well all through but fails to deliver once or twice, you just can‘t kick him out of the system. Workplace ethics says that organizations need to retain and nurture talents. If you have hired someone, it becomes your responsibility to train the individual, make him/her aware of the key responsibility areas, policies, rules and regulations and code of conduct of the organization. Employees need to be inducted well into the system. They must be aware of the organization‘s policies from the very first day itself.

**Workplace ethics also go a long way in strengthening the bond among employees and most importantly their superiors**. Employees tend to lie if you do not allow them to take leaves. If you do not allow an employee to take leave on an important festival, what do you expect the employee to do? What is the alternative left with him? He would definitely lie. Do not exploit your employees and don‘t treat them as machines. No employee can work at a stretch without taking a break. It is okay if they talk to their fellow workers once in a while or go out for a smoke break. Understand their problems as well. If you feel the problem is genuine, do not create an issue. It is but natural that once or twice they would definitely call their family members and enquire about their well-being. Superiors should not have a problem with that.

It has been observed that organizations which are impartial to employees, lend a sympathetic ear to their grievances and are employee friendly seldom face the problems of unsatisfied employees and high attrition rate.

**Role of Management in Inculcating Workplace Ethics**

Management plays an essential role in inculcating workplace ethics in employees. Bosses need to set an example for their subordinates. You need to come on time if you expect your team members to reach office on time.

**Management needs to act as a source of inspiration for the employees**. It is generally observed that team managers, leaders influence their team members to a large extent. Superiors strictly need to adhere to the rules and regulations of the organization for their employees to follow the same. Remember, you have no rights to scold your subordinates if you yourself are at fault. Moreover no one would bother to listen to you as well. Don‘t expect your team members to sit till late if you yourself leave early.

It is the role of the management to motivate the employees and guide them as to what is right and wrong. Remember a boss is like the captain of the ship. It is your responsibility to take your team members along and provide constant mentoring. Rebuking is not the only solution. If you know one of your team members is meeting his girlfriend during office hours, do you feel insulting or criticizing in front of others would help? NO. Call him to your cabin or speak to him in private and make him realize that it is not morally correct to bunk office. You need to counsel him and make him understand his mistake politely. Trust me, being rude would make the situation more worse. Do not discuss the matter in front of others. The other person might not like it. Your job is to make the other person feel guilty and realize that indeed he has done something wrong. Believe me; he would never repeat his mistake.

**Constant communication between the management and employees is of utmost importance in inculcating workplace ethics**. Management ought to be transparent with its employees. Let them have a say in company‘s decisions. Let them decide what is right and what is wrong for them. Sit with them, discuss, brainstorm ideas and listen to what they have to say. Never ignore their opinions. Let them come out with their grievances.

Lend a sympathetic ear to their problems as well. Try to provide them a solution. If you feel most of your employees have a problem coming to office early as they in any case have to stay back till late in the evening as per the client‘s availability, please adjust the office timings accordingly. How can you expect your employees to reach office sharp at 8 AM when they are leaving for the day at 10 PM. Remember, rules and regulations should not act as a hindrance in their performance. Be realistic and logical. If the problem is genuine and faced by a major chunk of employees, there is no harm in changing the policies. Think from the employee‘s perspective as well. Policies should not be too rigid.

Don‘t be too strict with the employees. If someone is not present in the office, please do not call his family members to enquire about him. No one would like it. We all are mature professionals to understand that if there is work, we need to finish it first rather than waste our time in gossiping and surfing social networking sites. Management can‘t force employees to respect the organization. Respect must be commanded and not demanded. Respect your employees if you expect the same in return.

**Some organizations do not easily release their employees. Remember, you cannot stop an individual from changing his job if he/she has already decided to move on**. Try to convince him once and if he/she is still not willing to continue, let him go. Employees depend on fake relieving letters, experience certificates when they do not get it from their previous organization on time.

## Importance of Employee Code of Conduct

**Employee code of conduct guides individuals as to how they should behave at the workplace**. Employees need to be aware as to what is expected out of them in the office. You just can‘t behave the same way at office as you behave at home. Your Boss can be your best friend outside office but at work you have to respect him and also treat him like your superior. Employee ethics is essential for maintaining discipline at the workplace. Management needs to be liberal with the employees but there has to be some element of fear also in the minds of employees. If the superiors are too friendly with their subordinates, there are chances they might start taking undue advantage of the friendship. There has to be a balance always. Yes, organization‘s policies ought to be employee friendly but that does not mean employees come to office at 11 AM just because they cannot get up early in the morning. There has to be a genuine reason for everything.

**There has to be a proper dress code for employees**. Individuals just can‘t enter into the office wearing anything. Employee code of conduct decides what individuals ought to wear to office. Some organizations are very particular of what their employees wear to work. Let us go through an example:

Organization A did not instruct employees about their dress code. There was really no strictness as far as dress code was concerned. One fine day; Paul came to office wearing T shirt and Capri. The same day, one of Organization A‘s esteemed clients came for site visit. Trust me, the moment the client met Paul, he was rather surprised. Understand, coming in jeans and T shirt to work does not stop us from working but it just reflects the non serious and casual attitude of employees. It is always better if employees come to work in formals. Casual dressing is okay on Saturdays but that does not mean you can come to work wearing shorts. Dress sensibly even if it is a weekend and you have already gone in the holiday mood. Employee dress code also ensures uniformity among employees.

**Employee code of conduct ensures career growth and also benefits the organization in the long run**. If employees understand the difference between what to do and what not to do at the workplace, problems would never arise. We bunk offices because we do not realize that such a practice is wrong and unethical. Employee ethics ensures employees adhere to the rules and regulations and also work for the organization. Employee ethics motivates employees not to indulge in gossiping, nasty politics, criticizing fellow workers, bunking office and so on. They seldom think of sharing confidential information or data with competitors and all their energies are utilized in productive activities which would benefit the organization.

**Employee ethics ensures employees attend office on time and genuinely respect their superiors**. Most of the times it has been observed that employees have a hate relationship with their Bosses. Are bosses wrong always? Ask yourself. How would you feel if someone reporting to you is absconding from the office and you have a deadline to follow? Yes, sometimes it does become essential to show your powers and be a little authoritative. Understand that employee ethics is not meant to downgrade employees but make them aware of their duties and responsibilities in the organization.

**Most essentially, employee ethics is important as it goes a long way in making the value system of employees strong**. This way, employees on their own develop a feeling of attachment and loyalty towards the organization. Remember, employee ethics is not meant to bind you but make you an indispensable employee.

## Myths of Business Ethics

Practically business ethics at the workplace connotes an alignment between what the organization values and how to go about it. It means that the all the day to day operations or activities carried out by employees are in tandem with the organizational policies without any deviations. **There are however lots of myths that surround business ethics and their relevance and effectiveness**.

**Many management thinkers and philosophers believe that business ethics alters people’s values**. They cease to be what they are, which comes in way of realization of their full potential. Instead business ethics should be about managing values and conflict resolution. Conflict management is what they stress the most upon.

There is a continuous tension between individual and organizational ethics. Many organizations believe that most of their human resources are ethical already and need not be trained upon. When such an ethical dilemma arises, it arises because there is a clash of principles that differ in their result priorities. Again there ethics to counter that are equally reasonable! So what do you choose?

One more myth that surrounds business ethics is that it is well managed and the prerogative of philosophers and theologians. They say that there is no such term as business ethics that can decide how organizations go about their day to day activities. Most of this may be attributed to lack of participation of business leaders in ethical decision making process and their interest in the same.

Business ethics is also criticized as being nothing new. It is believed to something that only avows what is good and which is logical and known to everyone. But when we look at the same from the perspective of stakeholders, the society and employees who work at the bottom of the pyramid, it safeguards the interests of all these groups. Organizations cannot function in a programmed manner ensuring there is no breach of a certain code in the absence of ethics and values.

Business ethics in the context of corporations is recent, but it is fairly old if we talk of general business transactions. Cicero wrote about business ethics in his book ‗On Duties'. It looks recent because of the corporate social responsibility movement that started in early 1970's.

Yet another myth that surrounds business ethics is that business ethics cannot be managed which is totally wrong. In reality business ethics is managed or exercised indirectly in some way. Organizations priorities can also be reflective of the ethics followed in the organizations. For example a sales driven organization is bound to be aggressive naturally, whereas one that is into the business of hospitality is bound to be different.

Certain other sections of people in management believe that business ethics and social responsibility are the same. They are not! In fact corporate social responsibility is only a small part of it. Corporate social responsibility concerns itself with managing business dealings and the interface with the society; it does not deal with ethics at the workplace. However both fall under the continuum of business ethics.

# Resolving an Ethical Dilemma

In a business setting mangers are put to test when they face the challenge of resolving an ethical dilemma. Often certain situations do not fall in the ambit of procedures or the official code of conduct and this is when the managers feel the heat.

The problem with ethical decision making is that a decision in itself cannot be taken in a vacuum; one single decision affects lots of other decisions and the key is to strike a balance to ensure a win-win situation is arrived upon.

Though there are no golden rules to resolve ethical issues but managers can take a number of initiatives to resolve ethical issues. A brief description is given below.

- **Know the Principles**

  In ethical decision making there are three basic principles that can be used for resolution of problem. These three principles are that of intuitionism, moral idealism and utilitarianism.

  The principle of intuition works on the assumption that the HR person or the manager is competent enough to understand the seriousness of the situation and act accordingly, such that the final decision does not bring any harm to any person involved directly or indirectly.

  The principle of moral idealism on the other hand states that there is a clear distinction between good and bad, between what is acceptable and what is not and that the same is true for all situations. It therefore asks to abide by the rule of law without any exception.

  Utilitarianism concerns itself with the results or the implications. There is no clear distinction between what is good and what is bad; the focus is on the situation and the outcome. What may be acceptable in a certain situation can be unacceptable at some other place. It underlines that if the net result of the decision is an increase in the happiness of the organization, the decision is the right one.

- **Debate Moral Choices**

  Before taking a decision, moral decisions need to be thought upon and not just accepted blindly. It is a good idea to make hypothetical situations, develop case studies and then engage others in brainstorming upon the same. This throws some light into the unknown aspects and widens the horizon of understanding and rational decision making.

- **Balance Sheet Approach**

  In balance sheet approach, the manager writes down the pros and cons of the decision. This helps arrive at a clear picture of things and by organizing things in a better way.

- **Engage People Up and Down the Hierarchy**

  One good practice is to announce ones stand on various ethical issues loudly such that a clear message to every member of the organization and to those who are at the greater risk of falling prey to unethical practices. This will prevent the employees from resorting to unethical means.

- **Integrating Ethical Decision Making into Strategic Management**

  Morality and ethical make up for a perennial debate and ethical perfection is almost impossible. A better way to deal with this is to integrate ethical decision making into strategic management of the organization. The way the HR manager gains an alternate perspective rather than the traditional employee oriented or stakeholder oriented view.

All these steps can bring better clarity into resolving ethical dilemmas. The choice lies with the manager and his own and the organization value clarity.

## CORPORATE SOCIAL RESPONSIBILITY

### Definition

Corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups.

Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

Companies have a lot of power in the community and in the national economy. They control a lot of assets, and may have billions in cash at their disposal for socially conscious investments and programs. Some companies may engage in "greenwashing", or feigning interest in corporate responsibility, but many large corporations are devoting real time and money to environmental sustainability programs, alternative energy/cleantech, and various social welfare initiatives to benefit employees, customers, and the community at large.

***Types of corporate social responsibility***

CSR can encompass a wide variety of tactics, from giving nonprofit organizations a portion of a company's proceeds, to giving away a product or service to a worthy recipient for every sale made. Here are a few of the broad categories of social responsibility that businesses are practicing:

**Environment:** One primary focus of corporate social responsibility is the environment. Businesses, both large and small, have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society as a whole.

**Philanthropy:** Businesses also practice social responsibility by donating to national and local charities. Whether it involves giving money or time, businesses have a lot of resources that can benefit charities and local community programs.

**Ethical labor practices:** By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility.

# CHAPTER FOURTEEN

# CONFLICT OF INTEREST AND INSIDER TRADING

## Conflict of interest

A **conflict of interest** (**COI**) is a situation in which a person or organization is involved in multiple interests (financial, emotional, or otherwise), one of which could possibly corrupt the motivation of the individual or organization.

The presence of a conflict of interest is independent of the occurrence of impropriety. Therefore, a conflict of interest can be discovered and voluntarily defused before any corruption occurs. A widely used definition is: "A conflict of interest is a set of circumstances that creates a risk that professional judgement or actions regarding a primary interest will be unduly influenced by a secondary interest."*Primary interest* refers to the principal goals of the profession or activity, such as the protection of clients, the health of patients, the integrity of research, and the duties of public office. *Secondary interest* includes not only financial gain but also such motives as the desire for professional advancement and the wish to do favours for family and friends, but conflict of interest rules usually focus on financial relationships because they are relatively more objective, fungible, and quantifiable. The secondary interests are not treated as wrong in themselves, but become objectionable when they are believed to have greater weight than the primary interests. The *conflict* in a conflict of interest exists whether or not a particular individual is actually influenced by the secondary interest. It exists if the circumstances are reasonably believed (on the basis of past experience and objective evidence) to create a risk that decisions may be unduly influenced by secondary interests.

### Types

The following are the most common forms of conflicts of interests:

- Self-dealing, in which an official who controls an organization causes it to enter into a transaction with the official, or with another organization that benefits the official only. The official is on both sides of the "deal."
- Outside employment, in which the interests of one job conflict with another.
- Nepotism, in which a spouse, child, or other close relative is employed (or applies for employment) by an individual, or where goods or services are purchased from a relative or from a firm controlled by a relative. To avoid nepotism in hiring, many employment applications ask if the applicant is related to a current employee of the company. This allows recusal if the employed relative has a role in the hiring process. If this is the case, the relative could then recuse from any hiring decisions.
- Gifts from friends who also do business with the person receiving the gifts or from individuals or corporations who do business with the organization in which the gift recipient is employed. Such gifts may include non-tangible things of value such as transportation and lodging.

- Pump and dump, in which a stock broker who owns a security artificially inflates the price by "upgrading" it or spreading rumors, sells the security and adds short position, then "downgrades" the security or spreads negative rumors to push the price down.

Other improper acts that are sometimes classified as conflicts of interests are probably better classified elsewhere. Accepting bribes can be classified as corruption. Use of government or corporate property or assets for personal use is fraud. Nor should unauthorized distribution of confidential information, in itself, be considered a conflict of interest. For these improper acts, there is no inherent conflict of **roles**

COI is sometimes termed **competition of interest** rather than "conflict", emphasizing a connotation of natural competition between valid interests rather than violent conflict with its connotation of victimhood and unfair aggression. Nevertheless, denotatively, there is too much overlap between the terms to make any objective differentiation.

## INSIDER TRADING REGULATION

In the words of two writers Barry and Michael in Insider Crime, The New Law;

―Too many, if not most people the phrase insider trading conjures a picture of a slick and rather smooth _city type‘ making a killing of stock exchange on the basis of a tip some a chum has given him over lunch. This picture has an element of justification in a good deal of prejudice.‖

Traditionally insider abuse has invoked individuals connected with management of companies as opposed to the smooth operator conjured up by the press. To some extent what is considered to be insider dealing is influenced by the philosophical basis upon which it is sought to distinguish such conduct from other normal conduct.
To ordinary persons, if such a dealing can be described as involving the deliberate exploitation of information by dealing in securities or other property to which the information relates, having obtained that information by virtue of some privileged relationship or position. It involves taking advantage of an opportunity to profit which is not available to others.

The phrase insider trading is used to denote purchases or sales of securities of a company effected by or on behalf of a person whose relationship to the company is such that he is likely to have access to relevant material information concerning the company not known to the general public.

Whereas it is accepted that insider trading should not be barred from dealing in their corporation securities, it is improper for them to profit by such dealing, if it is based on or motivated by confidential information about the corporation.

**What is insider trading?**

Insider dealing takes place when a person buys or sells securities while knowingly in possession of some piece of confidential information not generally available and which is likely if made available to the general public to materiality affect the price of securities.

It has been observed that insider trading prescribes the use of confidential information by people who as company officers or employees or a civil servant avail themselves knowledge in the course of their work or by reason of their office to deal in their own profit in the securities of the company. The challenge posted by insider dealing has an odd history. As early as 1934, a report of the United States Senate, Banking and Currency Committee observed that,

―…among the most vicious practices unheard for the fragrant betrayal of the fiduciary duties by directors and officers of corporation who use their positions of trust and the confidential information which came to them in such position to aid them in their market activities. Closely allied to this type of abuse was the unscrupulous employment of insider information by large stock dealers who while not directors or officers, exercise sufficient control over the destinies of their companies to enable them acquiring profit by information not available to others.‖

Whereas it is generally accepted that to make use of insider information is importable and does occur, there is less unanimity on the most appropriate formula to address the challenge.

In his article In Events of Insider Trading [1966] Harvard Business Review 113, Prof Henry Mann argues that, insider trading should not be regulated in that is serves certain purposes.

1. Long term investors suffer no loss from it as they select stocks on the basis of fundamental factors e.g. dividend history, earning potential, growth prospects etc. the investors do not generally buy and sell on the basis of short swing fluctuations in the price of securities.
2. There is no substantial relation between rigorous insider trading registration and public confidence in the markets.
3. Insider trading compensates entrepreneurial achievements of investors which would otherwise be necessary expense f the corporation. He argues that profits from insider trading constitute the only effective compensation scheme for entrepreneurial services in large corporations.
4. There is an increase in capital market efficiency in that new information about a corporation is reflected in its securities more rapidly and accurately if insiders are permitted to use it.

However these arguments nay be faulted in the following ways.

1. Insider trading does not reward efficient management as such. It rewards the possession of confidential insider information, whether the information is favourable to the prospects of the corporation.

2. It leads to loss of efficiency due to the incentives that are created fro the insider to conceal information or disseminate missed information above the corporation while he engages in trading.
3. Managers and others with confidential information would have n incentive to manipulate its disclosure so as to produce sharp changes in crisis.

It is generally agreed that insider trading is improper in itself as it damages the confidence of investors and the integrity of the securities markets. As aptly observed, the stock exchange is a market place for buying and selling company shares and other securities. Like any market place people would be more inclined to use it if they believe the prices in it correctly represent the value of what is bought and sold.

A person who buys something that turns out to be less than the price in the market he paid for it will feel aggrieved. So will be a person who sells something for less than its real value. It follows that deals in a market are or likely to be at a price correctly reflecting value.

If all the information used in valuation is available to both buyers and sellers i.e. information about the economy world trade, the particular market and the company itself.

**The Case for Insider Trading Regulation**

It has been argued that the moral or ethical reason for prohibiting insider trading is that the user of insider trading is unfair to those who deal with the insider. However other reasons for regulation have been propounded, the effectiveness of regulating insider trading is determined by the policy selected to justify the intervention.

1. It is argued that insider trading injure the proper interests of the company in whose securities the insider dealing takes place, if a person takes advantage of the information as a director or officer of the company or in a clearly defined relationship involving confidence and trust within the company, the potential injury is even greater.
2. It is disadvantageous for a company to acquire the reputation of being an insider‘s company. Such a company is likely to have problems in securing finance on competitive terms. In addition it suffers in the market as a consequence of loss of respect in the integrity of its management.

It is also argued that if insider trading is permitted, there is a temptation for those responsible for ensuring prompt disclosure of prices sensitive information to delay or manipulate the disclosure. Judicial authority has it that the injury occasioned by such conduct justifies legal liability.

3. It is argued that where a person in a position of trust abuses the confidence reposed in him, of duty.

The injury is in the breach of trust. In the words of Fulo C.J. in,it is proper that he required to yield up any benefits obtained by virtue of the breach

**In Diamond Vs Oreamun [1969]248 NE 290 —**It is a well established as a general proposition that a person who acquires special knowledge or information by …..insider trading is free to exploit that knowledge or information for his own personal benefit but must account to his principal for the profit derived therefrom. The primary concern in a case like this is not to decide whether the corporation has been damaged but to decide as between the corporation and the individual who has a higher claim derived from the exploitation of the information.

In our opinion there can be no justification for permitting officers and directors such as the defendant to retain for themselves profits which it is alleged they derive solely from exploiting information gained by virtue of their inside position of corporate officials.‖

The fiduciary Approach.
However while this appropriate to what the law regards as fiduciaries the vast majority of those likely to be involved in insider trading are not in the so called fiduciary relationship. This argument can only justify the control of insider trading in circumstances in which there is a pre-existing relationship of stewardship and hence an increasing obligation of trust.
The fiduciary approach justifies the private fiduciaries of unauthorized profits but is of limited application. In the alternative the information may be regarded as belonging to the company and hence its misuse for insider trading involves a misappropriation or theft, this approach is therefore limited to cases of definite fiduciary obligation.

4. It is further contended that the primary justification for insider regulation is equality of information for those in the market. However whereas this notion comports with the proper desire to draw into the market, as much information as possible to allow investors make informed and sensible decision it has been criticized as naïve in that many investment decisions are made on the basis that the investors considers that he has superior information.
5. The most convincing justification for controlling insider trading is that it has a perceived adverse effect on confidence. It is immaterial that insider dealing ha s a detrimental effect on the operation of the market or the fortunes of the corporation in that if enough opinion forming persons consider it wrong it has the effect of alienating investors as well as potential investors and this has adverse consequences for the society as a whole.

It is generally agreed that stock markets operate effectively and without inhibition in allocating capital and to do so they require confidence and respect from their own societies and the international community.

**In diamond Vs Oreamune [1969]** Directors of accompany were aware that due to an increase in expenses, profits had fallen drastically and they sold their shares at 4 25 per share before the information was made public subsequently, the price of the shares dropped to 411. The directors were held liable to account to the company for the difference for breach of their fiduciary duties, although the company had suffered no loss.

In the words of Fuld C.J.
―Although the corporation may have little concern with the day to day transactions in its shares. It has a great interest in maintaining a reputation of integrity, an image of probity wisdom for its

management and in ensuring the continued public acceptance and marketability of the stocks. When officers and directors abuse their position, in order to gain personal profits the effect may be to cast a cloud on the corporation, name, injure stock holder relations and undermine public regard for the corporations‘ securities.

**Regulatory Framework**

The significance of protecting the proper functioning of markets has long been recognized and the law is deemed to be a proper tool to achieve this. The importance of protection of protecting the markets as opposed to the individuals within it has also been recognized and legislative intervention is justified on the premise that insider trading harms the market and those who depend on it.

**Judicial Intervention.**

At common law company officers are free to hold and to deal in it s securities. However, the use of certain confidential information of the company is actionable e.g. trade secrets, list of customers.

1. British Industrial plastics Vs Terquson [1938] 4 ALL ER 50
2. Cramleigh Preussion Engineering Vs Bryant [ 1965] 1 WLR 1293.

In addition, if a director or officer of the company has made use for his own purpose of price sensitive information acquired in his capacity as such, amounts to a breach of his fiduciary obligations and is liable to the co which is entitled to recover any profit made..

**Industrial Development Consultants Ltd Vs Cooley**

The Defendant who was an architect was appointed the company‘s Managing Director. The company‘s business was to offer design and construction services to industrial enterprises. One of the defendant‘s duties was to obtain new business for the company particularly from the gas companies where he had worked before joining the Plaintiff. While the Defendant was still so employed by the Plaintiff a representative of one gas company came to seek his advice on some personal matters. In the course of their conversation the Defendant learnt that the gas company in question had various projects all requiring design and construction services of the type offered by the Plaintiff. Upon acquiring this information and without disclosing it to the company, the Defendant feigned illness as a result of which he was relieved by the company from his duties. Thereafter, he joined the gas company and got the contract to do the work. Two years previously, the Plaintiff had unsuccessfully tried to obtain that work. After the Defendant acquiring the contract, the company sued him alleging that he obtained the information as a fiduciary of the company and he should therefore account to the company for all the remuneration fees and all dues obtained.

The court held that until the Defendant left the Plaintiff, he stood in a fiduciary relationship to them and by failing to disclose the information to the company, his conduct was such as to put his personal interests as a potential contracting party to the gas company in conflict with the existing and continuing duty as the Plaintiff‘s Managing Director.

Roskill J.
―It is an overriding principle of equity that a man must not be allowed to put himself in a position where his fiduciary duty and interest conflict. It was the defendant‘s duty to disclose to the plaintiff the information he had obtained from the Gas Board and he had to account to them for the profits he made and will continue to make as a result of allowing his interests and duty to conflict. It makes no difference that a profit is one which the company itself could not have obtained. The question being not whether the company could have acquired it but whether the defendant acquired it while acting for the company.‖

**Canadian Aero Services Ltd Vs O'Malley**
The misuse of such information by officers of the company during and after termination of employment may be actionable. However it is contended that one of the reasons why the common law imposed no clear prohibition on the use of insider information in share dealing is the decision in Percival Vs Wright [1902] Ch 421.

Where joint holders of some shares in an unlisted company offer them for sale to the company chairman and other directors, the price at which they were offered was determined by an independent valuer at £12 10s each. The sale of shares was concluded but it was subsequently discovered while negotiating the purchase of shares the chairman had been discussing the sale of all the company shares at a price that would have made each share in the company worthy considerably more than £12 10s

The company shares however were never sold and evidence showed that the directors of the company had not intended to sell the shares. Percival and his company shareholder applied for the sale of shares to the chairman had failed to disclose that he was negotiating for the sale of the company at a higher price.

It was held that the chairman had no such duty. This case is authority for the proposition that directors awe their fiduciary duties to the company as opposed to individual members. In the words of Swifen Edd L.J.;

―…I am unable to adopt that view. I am therefore of he opinion that the purchasing directors were under no obligation to disclose to their vendors shareholders the negotiation which ultimately proved abortive. The contrary view will place directors in a most insidious position, as they could not buy or sell shares without disclosing negotiations, a premature disclosure of which might well be against the best interests of the company.‖

**Percival v. Wright (1902) 2 Ch. 421**
Certain Shareholders wrote to the Company‘s Secretary asking if he knew anyone willing to buy their shares. Negotiations took place and eventually the company chairman and two other directors bought the Plaintiff Shares at £12 10s per share. The Plaintiff subsequently discovered that prior to and during their own negotiations for sale, the Chairman and the Board of Directors had been approached by 3rd Party with a view to the purchase of the entire company‘s assets at more than the price of 12 pounds 10 shillings per share.

The Plaintiff brought an action to set aside the share sales on the ground that the directors owed them a duty to disclose the negotiations with the 3rd Party.

It was held that the Directors were not agents for the individual shareholders and did not owe them any duty to disclose. Therefore the sale was proper and could not be set aside. However, if the Directors are authorised by the members to negotiate on their behalf e.g. with a potential purchaser then the Directors will be in a position of agents for such members and will owe them a duty accordingly.

There is no question of unfair dealing in this case. However in Allen Vs Hyatt [1914] 30 TLR 444

Directors of a company found potential buyers for all its shares. They obtained form the company's other shareholders to purchase their shares by representing that this will facilitate the sale to potential buyers. In fact the price at which the directors exercised their opinions was lower than the price they had agreed with the purchaser.

Consequently the directors made enormous profits. It was held that, since the directors were agents of the shareholders for the purposes of the sale of their shares, they were liable for breach of the duty and had to account to them for the profit made unless some special relationship of piece type can be shown so as to establish a legal duty of care to disclose all relevant information.

An officer of the company is entitled to retain any profit made.

1. Munro Vs Bogie [1994] BCLC 415
2. Tett Vs Phoenix Property Investments Co Ltd [1984] BCLC 599.
3. Multinational Gas and Petrol Co. Ltd Vs Multinational Gas Petrochemical Services [1983] Ch. 258.
4. Coleman Vs Myers [1977] 2 NZLR 225.

For many years the only constraints in relation to insider trading were those imposed extra legally by self regulated agencies and the possibility of civil liability in certain cases e.g.

Regal [Hastings] Ltd Vs Gulliver [1942] 1 ALLER 378

Where the directors benefited from the sale of shares they previously held in their capacity as directors, it was held that they were liable to account. In the words of Lord Sankey,

―As to the duties on liabilities of those occupying a fiduciary position… in my view the respondents were in a fiduciary position and their liability to account does not depend upon prove of ―mala fides‖. The general rule of equity is that no one who has duties of a fiduciary nature to perform is allowed to enter into engagements in which he has or can have a personal interest conflicting with the interests of those whom he is bound to protect. If he holds any property so acquired as trustee, he is bound to account for it‖

Regal Hastings v. Gulliver (1942) 1 All E.R. 378

The company owned a cinema and the directors decided to acquire two other cinemas with a view to the sale of the entire undertaking as a going concern. Therefore they formed a subsidiary company to invite the capital of 5000 pounds divided into 5000 shares of 1 pound each. The owners of the two cinemas offered the directors a lease but required personal guarantees from the Directors for the payment of rent unless the capital of the subsidiary company was fully paid up. The directors did not wish to give personal guarantees. They made arrangements whereby the holding company subscribed for 2000 shares and the remaining shares were taken up by the directors and their friends. The holding company was unable to subscribe for more than 2000 shares. Eventually the company‘s undertakings were sold by selling all the shares in the company and subsidiary and on each share the Directors made a profit of slightly more than two pounds. After ownership had changed the new shareholders brought an action against the directors for the recovery of profits made by them during the sale.

The court held that the company as it was then constituted was entitled to recover the profits made by the Directors. Lord Macmillan had the following to say:

―The directors will be liable to account if it can be shown that what they did is so related to the affairs of the company that it can properly be said to have been done in the course of their management and in utilization of the opportunities and special knowledge and what they did resulted in a profit to themselves.‖

The question of liability on the part of directors for use of information obtained in the course of their employment was addressed in;

Boardman and another Vs Phipps
[ 1965] 3 WLR 1009

Boardman was a solicitor to the trust of the Phipps family. The trust held some shares in the company. Boardman and his colleagues were not satisfied with the company‘s accounts and therefore decided to attend the company‘s general meeting as representatives of the Trust. At the meeting they received information pertaining to the company‘s assets and their value. Upon receipt of the information, they decided to buy shares in the company with a view to acquiring the controlling interest.

Their takeover bid was successful and they acquired control. Owing to the fact that Boardman was a man of extraordinary ability, the company made progress and the profits realised by Boardman and his friends on the one hand and the trusts on the other were quite extensive. One of the beneficiaries of the Trust brought an action to recover the profits which were realised by Boardman and his friends.

The court held that in acquiring the shares in the company, Boardman and his friends made use of information obtained on behalf of the trust and since it was the use of that information which prompted them to acquire the shares, then the shares were also acquired on behalf of the trust and thus the solicitors became constructive trustees in respect of those shares and therefore liable to account for the profits derived therefrom to the trust.
Lord Upjohn observed thus;

―The relevant rule for the decision of this case is This case is the fundamental rule of equity that a person in a fiduciary capacity must not make a profit out of his trust, which is part of the wider rule that a trustee must not place himself in a position where his duty and his interest may conflict.‖

Additionally the decision in Seagor Vs Copydee Ltd
[1967] 2 ALL ER 415
…demonstrates the possibility of liability for breach of confidence as an equitable remedy in its equitable sense. However it has been observed that in all these possible claims it is arguable that in those cases, the company was not the real loser and did not have the necessary incentive to pursue the wrongdoer.
The decision in Percival Vs Wright appear to bar the development of claims based on breach of duty between directors and other insiders and the persons to whom the directors has sold or bought securities.
These duties except where expressly stipulated in the Companies Act are not restricted to directors alone but apply equally to any officials of the company who are authorized to act as agents of the company and in particular to those acting in a managerial capacity. This is particularly so as regards fiduciary duties.

**2. DISCLOSURE**
It has been observed that disclosure is one of the principle approaches to regulating insider trading. It is contended that by ensuring that price sensitive information which is withheld from the market is kept to minimum is les opportunity fro those decisions of exploiting it. Insiders are likely to manipulate events to avoid prompt disclosure of information so as to exploit it for personal gain. This is a problem where those in a position to influence the management of a company are also substantially interested in securities.

Hence it is critical to encourage disclosure of as mush relevant information as possible to facilitate sensible investment decisions. Companies should be required to disclose through appropriate procedures or information which might be reasonably considered to have an impact on the price of their securities. As promotional and continuous disclosure relies significantly on the medium of financial statements which are inherently historical in perspective, prompt disclosure is critical.

A further important role that disclosure has in regulating insider abuse is in obligation placed upon certain insiders to report promptly dealings which may give rise to subscription e.g. under the Companies Act, 1948 directors are required to disclose there interest in contracts entered into on behalf of the company. The disclosure principle in the Act is inadequate and not able to offer any protection. Section 200 of the companies Act, Cap 486 Laws of Kenya.

**3. LEGISLATIVE INTERVENTION**
Prohibition against use of unpublished insider information

No insider shall

a) either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange on the basis of any unpublished price sensitive information; or

b) communicate any unpublished price sensitive information to any person, with or without his request for such information, except as required in the ordinary course of business or under any law; or
c) counsel or procure any other person to deal in securities of any company on the basis of unpublished price sensitive information.

Any insider, who deals in securities or communicates any information or consults any person dealing in securities in contravention of the provisions of subsection (1) shall be guilty of insider trading.

**Insider trading prohibited**
A person who is, or at any time in the preceding Prohibited six months has been, connected with a body corporate **shall** not deal in any securities of that body corporate if by reason of his being, or having been, connected with that body corporate he is in possession of information that is not generally available but, if it were, would be likely materially affect the price of those securities.

A person who is, or at any time in the preceding six months has been, connected with a body corporate shall not deal in any securities of anybody corporate if by reason of his so being, or having been, connected with that first mentioned body corporate he is in possession of information that -

a) Is not generally available but, if it were, would be likely materially to affect the price or value of those securities; and
b) Relate to any transaction (actual or expected) involving both bodies corporate or involving one of them and securities of other.

Where a person is in possession of any such information which if made generally available, would be likely materially affect the price of securities but is not precluded by that subsection from dealing in those securities, he shall not deal in those securities if -

a) he has obtained the information, directly or indirectly, from another person and is aware, or ought reasonably to be aware, of facts or circumstances by virtue of which that other person is himself precluded from dealing in those securities; and
b) when the information was so obtained, he was associated with that other person or had with him an arrangement for the communication of information of a kind to which that subsection applies with a view to dealing in securities by himself and that other person or either of them.

A person shall not, at any time when he is precluded from dealing in any securities cause or procure any other person to deal in those securities.

A person shall not, at any time when he is precluded from dealing in any securities by reason of his being in possession of any information, communicate that information to any other person if -

a) Trading in those securities is permitted on any securities exchange; and

b) He knows, or has reason to believe, that the other person will make use of the information for the purpose of dealing or causing or procuring another person to deal in those securities.

Without prejudice a body corporate shall not deal in any securities at a time when any officer of that body corporate is precluded from dealing in those securities.

A body corporate is not precluded from entering into a transaction at any time by reason only of information in the possession of an officer of that body corporate if –

a. The decision to enter into the transaction was taken on its behalf by a person other than the officer;
b. it had in operation at that time arrangements to ensure that the information was not communicated to that person and that no advice with respect to the transaction was given to him by a person in possession of the information; and
c. the information was not so communicated and such advice was not so given.

A body corporate is not precluded from dealing in securities of another body corporate at any time by reason only of information in the possession of an officer of that first mentioned body corporate, being information that was obtained by the officer in the course of the performance of his duties as an officer of that first mentioned body corporate and that relates to proposed dealings by that first mentioned body corporate in securities of that other body corporate.

For the purpose of this section, a person is connected with a body corporate if, being a natural person -

a) He is an officer of that body corporate or of a related body corporate;
b) he is a substantial shareholder in that body corporate or in a related body corporate; or
c) he occupies a position that may reasonably be expected to give him access to information by virtue of –

- Any professional or business relationship existing between himself ( or his employer or a body corporate of which he is an officer) and that body corporate or a related body corporate; or
- His being an officer of a substantial shareholder in that body corporate or in a related body corporate.

This section does not preclude the holder of a stockbroker‘s or dealer‘s licence from dealing in securities, or rights or interests in securities, of a body corporate, being securities or rights or interests that are permitted by a securities exchange to be traded on the stock market of that securities exchange, if -

a) The holder of the licence enters into the transaction concerned as agent for another person pursuant to a specific instruction by that other person to effect that transaction;
b) the holder of the licence has not given any advice to the other person in relation to dealing in securities, or rights or interests in securities, of that body corporate that are included in the same class as the first mentioned securities; and
c) The other person is not associated with the holder of the licence .

An ―officer‖, in relation to a body corporate, includes -

- A director, secretary, executive officer or employee of the body corporate;
- a receiver, or receiver and manager, of property of the body corporate;
- an official manager or a deputy official manager of the body corporate;
- a liquidator of the body corporate; and
- a trustee or other person administering a compromise or arrangement made between the body corporate and another person or other persons.

**SANCTION**

A person who contravenes this section shall be guilty of an offence and shall be liable -

(a) On a first offence -

i. In the case of a body corporate, to a fine not exceeding five million shillings;
ii. in the case of any other person, including a director or officer of a body corporate, to a fine not exceeding two million five hundred thousand shillings or to imprisonment for a term not exceeding five years or to both;

(b) On any subsequent conviction -

i. In the case of a body corporate, to a fine not exceeding ten million shillings; or
ii. in the case of any other person, including a director or officer of a body corporate, to a fine not exceeding five million shillings or to imprisonment for a term not exceeding seven years or to both.

An action under this section for the recovery of a loss shall not be commenced after the expiration of six years after the date of completion of the transaction in which the loss occurred.

Section 2 of the Capital Markets Act defines an insider as any person who, is or was connected with a company or is deemed to have been connected with a company, and who is reasonably expected to have access, by virtue of such connection to unpublished information which if made generally available would be likely to materially affect the price or value of the securities of the company, or who has received or has had access to such unpublished information.

Section 33 of the Act is the operative provision in so far as the prohibition of insider trading is concerned. It identifies the persons who must not deal in securities by virtue of their connection with a body corporate in the preceding 6 months. In addition, it embodies exceptions, the general rule and prescribes harsh criminal sanctions for offenders or conflicts.

Arguably, the statutory framework for regulating insider dealing appears sufficient to meet the challenge of insider trading/dealing. However as the case in other jurisdictions, the principle challenge remain detection of the crime and securing a conviction e.g. in

**In R v Fisher [1988] 4 bcc 360**

The accused was charged with contravening Section 1[3] and [4] of the Company Securities [Insider Dealing] Act of 1985. The accused had sought to buy a block of shares in a public company but the negotiations with the seller failed through an employee of the merchant bank which was advisor to the seller informed the accused that the information was price sensitive and confidential as the deal had not been, made public. Despite the warning the accused purchased shares on the market before the public announcement of the sale and later sold them at a profit.

At the trial he argued that he had no case to answer by submitting that he did not obtain any information from the merchant banks employee but had merely received it. The court was of the view that on that basis of the statutes considered in other cases the words ―obtain‖ had been strictly construed to mean procure, or gain as the result of purpose and effort or by request.

The accused was held not guilty as he had not taken any step whatsoever directly or indirectly by word or conduct to secure, procure or acquire the information given to him.

**In R Vs Goodman [1994] BCIL 349**

The accused was a chairman of a public company. He had disposed of his entire shareholders in the company and resigned as chairman a few days after the company‘s results were published. The results showed a loss of $ 9000 as opposed to the profit which was expected. The accused was convicted for insider trading and sentenced to imprisonment and was in addition disqualified from acting as a director for 10 years.

# CHAPTER FIFTEEN

# EMERGING ISSUES AND TRENDS

## SOCIAL AND ETHICAL RESPONSIBILITIES OF MANGEMENT

### Definition of Ethics

As noted in lesson one managers carry out different functions and play different roles in the organisation. By implication managers pursue multiple objectives and multiple sets of priorities. Often managers must juggle goals and priorities and make choices between these goals. The choices they make affect the ability of employees, customers, suppliers, stockholders and anyone with interests in the organisation. Mangers must often decide ―who has the right to what and when‖. No matter what they do, the actions of managers allocate benefits and detriments to people.

- Ethics as applied to management refers to the concept of interactive responsibility: who is? Who should be? Benefited or harmed by an action. It is also a study of ―who has a or should have rights of any kind in the organization
- Ethics is the discipline dealing with what is good or bad, or what is right or wrong or specifically with moral duty and obligation.
- Ethics could also be described as the study of how our decisions affect other people or as the study of people_s rights and duties and the rules that people apply in making decisions. In business we cannot avoid ethical issues just like in other areas of our lives.

### Levels of Ethics

In business most of the ethical issues will fall into one of the following four levels.

**i. Social Level**

This level deals with the basic institutions in society eg. Issues on the role of the government in the market place, merits or demerits of political parties or ideologies. Managers of organisations have an obligation to shape debates on social welfare.

**ii. Stakeholders Level**

Employees, suppliers, customers shareholders, etc. Certain ethical considerations affect this group of people. A company must deal with the issue of how its decisions affect all those groups of people eg. What obligations does a company have to its suppliers, to its customers, or even to its owners?

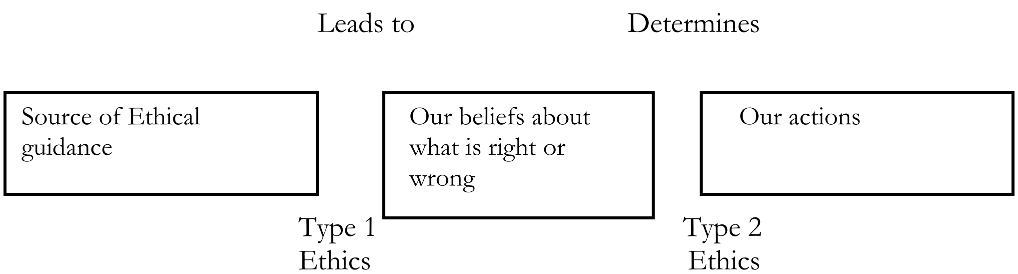
**iii. Internal Policy Level**

At this level the question of interest is the nature of a company_srelationship with its employees and mangers. ―What kind of contract is fair? What rights should employees have?‖

**iv. Personal Level**

How do people treat one another within a corporation? Should they be honest with one another? What obligations do employees have to their bosses, to subordinates or to peers. These questions deal with the day-to-day issues of life in any organisation. Ethical questions are everywhere, at all levels of business activity. Ethical issues concern the ground rules of individuals, companies and social behaviour. Being ethical calls for people to examine their actions and be critical of the ground rules they apply in their activities. A seller for example should ask such questions as ―should I tell the customer the product is harmful?‖ A buyer should ask ―should I tell the clerk he gave me too much change?

**Below is a model of Ethics**




It can be seen that ethics consist of two relationships, indicated by arrows in the figure. A person or organization is ethical if these relationships are strong and positive There are a number of sources that one might use to determine what is right or wrong, good or bad, immoral or moral behaviour. These include the Bible, the Koran and a number of other holy books. They also include that ―still small voice‖ referred to as the conscience. Another source of guidance is the behaviour of what psychologist call the ―significant‖ others – our parents, friends, role models, associates, peers etc. The laws of the country prohibit any acts that are sufficiently hurtful to others and therefore laws offer guides to ethical behaviour. But distinction must be made between what is illegal and what is unethical. Not everything that is unethical is illegal. For example the law has limits regarding honesty. If one picks a lost item and keeps it, he probably has not done anything illegal but his act is unethical. If a clerk steals from his company in order to feed the poor, he has done an illegal thing but for ethical reasons. Decisions of ethics are quite difficult but all mangers need to know is that ethics goes beyond the minimum requirements by law and by market economy. There are so many unethical things that can be done in business, yet there is no law against them!

Simply having strong beliefs about what is right and wrong and basing them on the proper sources does not make one ethical. Behaviour should conform with what we believe about right and wrong. Type II ethics is the strength of the relationship between what one believes and how one behaves. To do what one believes is wrong is unethical. But to be ethical one must have both types of ethics. Type I ethics refers to the strength of the relationship between what an individual or organization believes and what the sources of guidance suggest is morally correct.

**Business Ethics (Managerial)**

Business ethics also called managerial ethics is the application of ethical principles to business relationships and activities. Managers who run business are human beings who despite the laws set cannot behave the same regardless of the circumstances. Managers face many ethical dilemmas (two or more situations) where both seem right but which are conflicting.

**Managerial ethics could apply in these areas.**

a) relationships of the firm to the employees:

how they are to be treated

what are fair wages, fair dismissals

etc. relationship of the employee to the firm

how should they behave vis a vis the firm e.g. issues of competing loyalties, accepting incentives from suppliers, cases of moonlighting, secrecy or espionage and honesty in small items; pens, paper, telephone etc

Relationship of the firm to the environment

- Ethical issues arise in how the firm relates to the various elements of the environment eg. customers competitors, stockholders dealers and the community.

Many industries and organizations companies have formal, written codes of ethics that provide specific guideline for managers and other employees. But the question is whether when individuals violate the code of conduct, the organization enforces it.

Many companies in an attempt to manage ethics have developed specific codes of ethics. These establish guidelines for ethical decision making in business. Areas covered may be truthfulness in advertising, improper use of company assets political contributions, payments in connection with business transactions, conflict of interest, trade secrets etc. There are advantages for organizations to form industry associations to develop and promote improved codes of ethics. It is difficult for a single firm to pioneer ethical practices if its competitors undercut them by taking advantage of unethical shortcuts. If ethics are to be improved, it is very important for top executives to support and emphasize ethical behaviour by adhering to ethic themselves and also train their staff in ethics.

**The Tools of Ethics Ethical Language**

The key terms of the ethical language are values, rights, duties and rules.

Values are permanent desires that seem to be good in themselves like peace. Values are the answers of questions of ―why‖―why for example should managers behave ethically?‖.

Rights and duties; a right is a claim that entitles a person to something . A duty is an obligation to take specific steps; eg to pay taxes.

Moral rules are the rules that guide us through situations where competing interests collide.

**Common Morality**

Which is the body of rules covering ordinary ethical problems i.e. rules that we live by most of the time. Examples include:

promise keeping
non malevolence
mutual aid
respect for persons and
respect for property

Below is a list of twelve questions for examining the ethics of a business decision.

Have you defined the problem accurately?
How would you define the problem if you stood on the other side of the fence? How did this situation arise in the first place?
To who/what do you give your loyalty as an individual member of the organization?
What is your intention in making this decision?
How does this intention compare with the probable results? Whom could your decision harm?
Can you discuss the problem with the affected party before you make your decision?
Will the decision remain valid for a long time?
Could you disclose your decision without fear to your superiors, family, board of Directors and society?
What is the symbolic potential of your action if understood or misunderstood?
Under what conditions would you allow exceptions to your stand?

**Source: James A.F, Stoner, R. Edward Freeman**

**Management Fourth Edition**

Companies should try their utmost to institutionalize the process of ethical decision making, so that each decision builds upon the decision that preceded it. There are several ways of doing this,

Having codes of conduct
Forming ethical committees.
Using ombudsmen
Using ethics training or judicial boards and using social audits.

**Social Responsibility and Management Introduction**

During this century there has been much change in what society expects of its institutions and in what managers regard 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.

**Corporate Social Responsibility**

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.‖ 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.

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!

**To Who Or To What**

The question arises to who should corporations 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).

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.

**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.
Organisations 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.

**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.

Organisations 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 eg. to the disabled. Some organizations have special programs for the disadvantaged eg. special telephone booths by KP&T, Barclays Bank the street children account.

**MANAGING IN A MULTICULTURAL ENVIRONMENT International Management**

It involves managing across national boundaries. It is concerned with management of resources that operate in more than one country. The term implies the extension of the management process across national boundaries. In the international environment the basic functions of management while retaining their essential characteristics have an added complexity as they plan, organize, direct, control and make decisions managers must deal with new and different situations, characteristics and cultural perspectives.

International business is business activity that takes place across national boundaries. It involves buying or selling products between countries.

When a company_s international involvement is high it becomes a multinational company (MNC).

**FORMS OF INTERNATIONAL BUSINESS Multinational Corporations (MNC)**

They operate in many countries through foreign direct investment strategies (FDI). They build manufacturing plants in other countries and develop their distribution and marketing networks in those countries.

**Licensing:-** Refers to contractual arrangement where the licensor (MNC) gives alicense to a Licensee (domestic firm) to manufacture a product on behalf of the MNC. The MNC provides the technology, management skills and the brand name for a fee called royalty.

**Franchising:-** Is a contractual arrangement where a MNC sells its goods through afranchise sales agent. The product may be produced in different country and brought for sale in the domestic market.

**Exporting:** Involves selling goods or services in foreign countries through thegovernment, private agents or companies.

**Joint Ventures:** - Is a contractual arrangement between a foreign and domesticfirm. The company involved jointly manufacture goods/services. The foreign company provides technical development while the local company provides for local development and adaptability.

**Applications of Management principles in MNC PLANNING**

It requires setting objectives and then formulating programs and procedures to achieving objectives. The MNC must assess the external environment for opportunities and threats and then match them with internal strengths and weaknesses.

A poor educational system may make it difficult to find qualified personnel and this could affect the company_s recruitment activities.

Cultural orientation towards time will also affect planning, cultural attitudes that emphasis a short time perspective will not be conducive for long-range planning.

Political or economic instability may affect the forecasting ability of the company and also may discourage long-term commitment of resources.

**2. ORGANIZING**

Organisational structures established to achieve objectives of MNC. Various structures could be used depending on the type of company among other factors.

A divisional structure is most popular and could be based on either product lines, geographical areas or customer type. Other structures include holding company structure and matrix structure.

**3. STAFFING**

The positions identified in a MNC must be filled with qualified persons. Managers of MNC can be classified in 3 ways:-

a) National i.e. selected from the country in which headquarters are located. (from country of origin).

These are expatriates chosen to represent and manage divisions abroad. These managers because of their experience are familiar with the parent company_s policies and operations.

b) Selecting managers who are from the host country. These managers are familiar with the country_s environment, educational system, culture, legal and political processes and its economic environment.

Managers who have a nationality that is different from the parent company and the host country. Such managers have gained experience by working at the company_s headquarters as well as in different countries thus they have developed behavioral flexibility that eases their adaptation in different cultures. They are truly trans-cultural. Eg. The former Barclays (K) Ltd Managing Director Issac Takawira from Zimbabwe a third country national.

**4. DIRECTING**

Involves motivating, communicating with foreign country nationals. It requires effective leadership by inducing workers to contribute to enterprise objectives. This will mean that managers understand employee cultural environment for example participative management may flourish in one country but may cause confusion in another where there is a tradition of autocratic rule. Due to technological development communication has been enhanced and the transmission of information improved.

**5. CONTROLLING**

It is the measurement and correction of performance to ensure that events conform to plans as an essential managerial function that is influenced by various environmental factors unique to an international enterprise.

Revenues and costs are measured in different countries
The exchange rates are subject to fluctuations
Accounting practices and policies often differ from country to country. The company must satisfy the tax demands of host countries.

Developing procedures that meet this demand at the same time is extremely difficult owing to the complex nature of measurement. Time delays may also slow the process of detecting and initiating corrective actions. With computers however, this process can be speeded up.

**Problems faced by managers in international environments**

1. Language barriers (semantic barriers

Some articles may need to be translated and this could hamper communication.

2. Cultural attitudes towards such factors as time and productivity in some parts of the world may be different. For example the swiss are known to be good time keepers.

3. Lack of the technical skills required to run the machinery.

4. Scarcity or differences in the standards of raw materials parts of equipment and other facilities. It may be difficult for the MNC to obtain raw materials locally.

5. Hostile or unstable political climate:- Frequent changes of government authority and policies can cause unpredictable environment to MNC‗s in some cases the government may be unable to protect its own nationals.

6. Fluctuations in the international economy:- Inflation and currency devaluation have major effects on the cost and profit of MNC

7. Unfamiliar legal system:- Laws concerned with banking, taxes differ from country to country.

8. Differences in the accounting systems and this introduces a problem with reporting and comparing operations in different countries.

9. Custom duties (tariffs and health and safety practices imposed by different government make international corporations more difficult.

## MANAGEMENT AND THE FUTURE

### Corporate Governance

It is a new discipline of management which evolved in the last quarter of the $20^{th}$ century. Though relatively new in the management circle, the issue of corporate governance is one of the leading issues in leadership and management. Corporate governance is equited to corporate management.

The emphasis is laid on the role that the board plays in guiding management towards corporate success on the other hand, emphasis is placed on the role of independent directors or similar bodies in ensuring that corporate executives or directors are themselves made accountable and supervised.

Corporate governance can also be understood by defining it in terms of organizational outcomes. Corporations are created to achieve the desired outcomes of their ―creators‖ it therefore follows that if these objectives are met then the corporation is well governed. From this perspective it can be defined as the process whereby organizations are led towards achievement of objectives for which they were founded.

Corporations are governed and managed not by their owners but through the process of agency. These agents might be governors, managers and other employees they have entrusted to govern the corporation on behalf of the owners.

### Elements of good corporate governance

Since agents are custodian trustees and stewards of the organization they are answerable and accountable to the owners.

For successful corporate governance the role of shareholders directors and other employees must be clearly defined. The directors must be made accountable to somebody. They must be clearly aware of the fact that failure to give a good account will not go unpunished.

**Good corporate governance should ensure the following:-**

1) Enterprise prosperity and survival:-

Corporations must be managed efficiently and effectively to ensure prosperity and survival. When they prosper they generate wealth and promote well-being of both the stakeholders and the society.

2) Ethics, integrity and responsibility

Organizations must be lead on the premise that the highest standards of integrity and ethics be maintained. Abuse of powers, corruption, laziness, conflict of interest and other such vices can all ruin organizations. The people appointed to new organizations must be fair, transparent and responsive.

3) Employee participation in decision making i.e. employee empowerment. Quality circles suggest that workers have increasing influence on what occurs in the work place.
4) Administration of justice on employees and other stakeholders through the application of rules and regulations.
5) Protection of employees right to employment by providing job security to employees
6) Establishment of positive corporate culture.

### 11.3.2 Business Process Reengineering (BPR)

The fundamental rethinking and radical redesign of business processes to achieve dramatic improvement in critical contemporary measures of performance such as cost quality, service and speed.

It is a new management approach reflecting the practices, experiences of managers and providing a source of practical feedback to management science. It represents a response to:

-

Failure of business processes to meet customer needs and deliver customer satisfaction.

The challenge to organizational politics.

The gap between the strategic decision made in the boardroom and the day-to-day practice of the business.

The disappointment following the application of information technology to businesses during the 1980_s. This resulted in failure of businesses because senior managers failed to align its strategy with corporate objectives.

BPR is not confined to manufacturing process and has been applied to a wide range of administrative and operational activities.

**There are a number of principles that have been identified for BPR.**

1) Processes should be designed to achieve desired outcomes rather than focus on tasks. Removal of job demarcation and emphasize multi-skilling.

2) People who use the output should perform the process themselves. For example a company could set up a database of approved suppliers. This would allow personnel who actually require supplies to order them themselves, using line technology and thereby eliminate the need for using a separate purchasing department

3) Incorporate information processing into the real work that produces the information- avoid separate data gathering processes or operations.

4) Geographically dispersed resources should be treated as if they were centralized for example economies of scale through central negotiation of supply contracts, without losing the benefits of decentralization eg. flexibility and responsiveness.

5) Link parallel activities rather than integrate the results. This would involve for example, co-ordination between teams working on different aspects of a single process.

6) Empowerment:- _Doers_ should be allowed to be self managing. Put the decision point where the work is performed.

7) Capture information only once. Ideally only at its source.

**Advantages**

1) BPR revolves around customer need and helps to give appropriate focus to the business.
2) Provides cost advantages that assists the organization_s competitive position.

3) Encourages a long-term strategic view of operational processes by asking radical questions about how things are done and how they could be improved.

4) It focuses on the entire processes and therefore the exercise can streamline activities throughout the organization.

5) It can help eliminate unnecessary activities therefore help reduce organizational complexities.

**Disadvantages**

1. It requires far-reaching and long term commitment by management and staff. Securing this is not an easy task.

2. Sometimes it is incorrectly seen as a single once for all cost cutting exercise. Primarily the aim is not cost cutting and it should be an ongoing process. This view could create hostility as employees see it as a threat to security.

3. Sometimes it is also seen as a tool to make small changes yet in the real sense it should be used to make radical changes.

### 11.3.3 Benchmarking

The establishment through data gathering of targets and comparators, through whose use relative levels of

performance and particularly areas of underperformance can be identified. It can either be:-

a) Internal benchmarking: comparing one operating unit or function with another within the same organisation.

b) Functional: Compares functions with those of the best external practitioners regardless of the industry they are in. They are also called generic benchmarking.

c) Competitive:- gather information about direct competitors.

**Advantages**

Position audit:- It can assess the firm_s existing position.

The comparisons are carried out by the managers who have to live with any changes implemented as a result of the exercise.

It focuses on improvement in key areas and sets targets that are challenging yet achievable. What is really achievable is discovered by what others have achieved.

It assists firms to set high standards of quality and therefore making it a source of competitive advantage

**Dangers**

Implies there is one best way of doing business. It boils down to differences between effectiveness and efficiency.

It may be yesterday_s solution to tomorrow_s problem as performance is measured against targets set on historical data.

It is a catching up exercise rather than developing distinctive competences. After the benchmarking exercise the competitor may improve performance in a different way.

It heavily depends on the accuracy of information used to set targets.

**QUALITY CONTROL/MANAGEMENT METHODS**

Product quality has become a major competitive factor in determining the survival of a firm. With the proliferation of goods and services available, customers are demanding products that work properly the first time and every time during the expected product life. Service industries also are highly competitive. Banks must provide more accurate bank statements, faster delivery of documents and friendlier, more efficient and helpful service in face-to-face situations. Organizations are learning that higher quality does not mean higher costs. In fact the opposite is true. Most importantly, managers are moving from the concept of quality control to the broader concept of quality management. Quality is now becoming part of the strategic focus of successful companies.

To better understand quality in the production process, we must determine what quality is and what it is not. We should also understand that quality has strong legal and social implications as well. If such things as vehicles and drugs are of poor quality, lives may be lost.

**QUALITY DEFINED**

Quality is a characteristic that determines a products value in the market and how well it will perform the function for which it was designed. The quality of a product is measured in terms of the degree of conformance with a particular product standard.

In manufacturing a product, the following elements of control must be applied to the quality dimensions of the product.

(a) Measure the quality characteristics
(b) Compare actual results to the standard

(c) Take corrective action when the deviation between actual results and the standard exceeds tolerable limits.

**Dimensions Of Quality**

Quality is not a single characteristic but multi-dimensional. The dimensions of quality are:

1. **Functionality**—This refers to whether the product performs its function atthe end of the manufacturing process or when it is first put to use.

2. **Reliability—**How long will the product function under normal conditions?A product should perform perfectly from the first time to the completion of its life span.

3. **Durability**—How well and how long will the product function under adverseconditions? e.g heat, cold, dust and other conditions that it reasonably might be expected to encounter?

4. **Aesthetics Characteristics**—This refers to the appearance of the productand is not necessarily related to its function. The smoothness of the surfaces, the symmetry of decorative design and the absence of dents, or scratches illustrate this dimension.

5. **Safety—**Will the product perform its function without endangering the user?

A high quality product can not be produced unless all these aspects have been considered.

Quality is a matter of concern for every organisation involved in the production of goods and services. Cheap or inferior goods or services ruins the competitiveness of the organisation. Hence many organisations are setting up quality improvement standards (ISO 9000 certification) ISO – International Standards Organisation.

Quality certification has gained momentum in Kenya in the last decade hence most organisations are going for

**ISO 9000 certification.**

ISO 9000 certification is a quality system certification which is recognised worldwide as the ultimate yardstick for testing organisations and business commitments to excellence. It is issued under stringent measurement that are recognised and documented internationally. It considers quality across designs, product, procedures and the entire institutional chains.

**The following are the quality control methods: 1) Inspection:**

Involves comparing products to the standards, approving those that meet them and rejecting those that do not. Inspection serves as a check on the quality of incoming materials and finished goods.

**2) Statistical quality control:**

The assumption behind this is that most quality problems perhaps as many as 85% are as a result of flaws in manufacturing system and not errors by production workers. The goal of this is to determine whether something has gone wrong with the manufacturing system. It relies on the law of probability to do this by checking a sample of the output and applying the right statistics it is possible to tell variation or whether the system is out of control.

### 3) Quality Circles

This is a quality control technique which originated in Japan. It involves the use of committee of workers that analyses and solves quality problems of various departments in the organisation. The quality groups are established in every department and trained on problem solving by use of statistical quality control and other group process. They are encouraged to make important inputs to key decisions affecting their activities. They regularly meet to review the quality of goods or

services offered. The quality circle is not a permanent committee. It may comprise of between 5 –1 2 members and membership is rotated between members of the department/production units.

### 4) Monitoring the quality of supplies

Quality problems in production are often the result of poor quality inputs. Organisations should have strong programs for ensuring that they have the right quality of incoming materials and supplies.

**Supplies can be monitored through:-**

involving the suppliers in writing specifications for production materials and components ensuring that suppliers understand the specifications before supply orders are place.

### 5) Total quality Management (TQM) Meaning and definition

TQM is an intensive long-term approach directed at the creation and maintenance of high standards of product quality and services expected by customers. International Standard

Organisation (ISO) defines TQM as a ―management approach centred on quality based on theparticipation of all its members and aiming at a long-term success through customer satisfaction and benefits to the members of the organisation to the society.‖

TQM therefore involves active participation of all members of the organisation at all levels to meet and exceed customers expectations.

### Characteristics of TQM

1. Quality i.e. <u>everybody_s responsibility</u>
2. It requires the <u>commitment</u> and active participation of all the individuals in the organisation
3. Improvement in quality is a <u>continuous process</u>
4. TQM should aim at <u>customer satisfaction</u>
5. Quality is neither a technical function nor a departmental activity but a <u>systematic approach</u> cutting across an organisation. The emphasis in improved quality must take place throughout all phases of the business and not just in the operations process.

All departments, sections and units must be involved in quality improvement effort.

Quality achievement must be externally/customer driven and not internally/organisation driven.

## PROCEDURE OF INTRODUCING TQM PROGRAMME

1. Analysis of customers_ needs
   Customers needs may be high quality products, efficient services etc. Need assessment may be carried out through market survey which involves the use of interview or questionnaire methods.

2. Assessment of the degree to which these needs are currently being met.
3. Establishment of the gap between the current and desired situation i.e. the extent to which the needs are being met or the extent to which customers are dissatisfied with current services.
4. Establishment of the quality standards capable of satisfying customers needs.
5. Putting in place programmes necessary to meet the standards (needs of the customers) The following programmes should be introduced:-

   a) Incorporating quality objectives into strategic plans
   b) Building TQM into accountability of every job and into all related systems eg. performance appraisal.
   c) Forming quality teams eg quality circles
   d) Building skills through training and development programmes
   e) Commitment from top management to provide a vision to reinforce values emphasising quality, set quality goals and deploy resources for quality programmes.
   f) Recognising and rewarding quality improvements.

## BENEFITS OF TQM PROGRAMMES

Enables the organisation to meet their customers needs hence achievement of goals and objectives.

Improves competitive strengths of the organisations.

Promotes interpersonal relations and team spirit among employees

Improves communication between managers and subordinates

Improves employee motivation through better terms and conditions of services eg. improved salaries

Strengthens long-term operations of the organisation.

## THE SMALL BUSINESSES

Business management begins after a business has been started—therefore identification of business opportunities is the foundation for starting a business. The question of what business opportunities are available is very important. Many people would like to be their own bosses and therefore may start their own small businesses. But owning one's business has some risks especially because the income is not guaranteed unlike salaried employment.

**When is a business small**

In general a small business has few employees, limited capital, low investment and low sales. A small business will be a business that has the following characteristics:-

(a) Management is independent, generally the managers are also the owners.
(b) The capital is contributed by one person or a small group.
(c) The area of operation is local—the owners and employees reside in one home community.
(d) The size within the industry is small.

From the above we see that a small business is self-initiated, largely self-financed and closely self managed and is of relatively small size when considered as part of the industry. Small businesses service big ones as many products produced by big companies are distributed by small companies. Apart from the matter of size small businesses have three other distinguishing characteristics.

- Management
- Capital requirements
- Local operations

**Management**: The management is relatively independent since usually the managers are alsothe owners. They make their own decisions, the owner is both the investor and the employer. This gives him complete freedom of action, and most small business are either sole proprietorships or partnerships.

**Capital requirements**: The capital requirements are usually small and can be provided by one person.

**Local operation:** Both employees and owners come from the local community and location ofthe business.

**SOLE PROPRIETORSHIP**

The simplest and oldest form of business organization. It is a business owned and operated by one person. This single owner takes all the business risks and all the profits. He is also the manager of the business. A large part of Kenyan businesses is of this form, however they do not account for the larger amount of business activity. Examples are hardware, matatu, bus, kiosks, shoeshops, shopkeeping, hairdressing, beauty shops, etc. The business has few employees usually four or less.

**Advantages of Sole Proprietorship**

**(a) Ease of starting**

A sole proprietorship is easy to start since there is no need to make a contract with others. There are few legal requirements except a licence from the government. The owner is free to choose the name of the business without much consultation.

**(b) Low cost of organization**

The licence fee is small. One only needs money for equipment and merchandise. The profits of the business are not taxed. The owners pay tax as an individuals.

**(c) Freedom to manage**

The owner has maximum freedom in decision making as he is the boss and is the only one involved. He can also adjust quickly and take advantage of any business opportunities that may occur.

**(d) Profit incentive**

After all expenses are paid, all the profits belong to the owner and this serves as a strong incentive and gives the owner maximum satisfaction and encouragement to improve on his business.

**Weaknesses of sole proprietorship**

**(a) Limited size**

The size of sole proprietorship is limited by the amount of capital the owner can raise, the sum of money already on hand plus what he can borrow. As the amount of capital needed increases, the owner may find it necessary to change to a partnership or even corporation

**(b) Unlimited liability of debts**

The claims of creditors against a business may exceed the value of its assets. In this case the personal property of the proprietor may be taken to pay business debts—this often discourages people from starting their own businesses.

**(c) Limited life**

The business may and usually dies if the owner dies or becomes disabled especially when family members do not want to take over. Sometimes family members may take over but are unable to run it well and bankruptcy results. A sole proprietorship has no legal life beyond that of its founder.

**(d) Limited management ability**

Every business has many basic functions that must be performed in order for it to be successful.Depending on the type of the business these may include buying, selling, advertising, accounting and bookkeeping, insurance, credit personnel management. The fact that few people are expert in all these areas is the chief cause of most small business failures, yet the sole owner is responsible for carrying out even those functions for which he or she has no real competence.

**Note**

The success and viability of the sole proprietorship then will depend on whether the owner can overcome the weaknesses. Where the owner can overcome the weaknesses then the sole proprietorship has special appeal as he shares his profits with nobody else.

## PARTNERSHIP

In some respects the partnership is the extension of the sole proprietorship but designed to include more than one person. It is defined in law as "an association of two or more persons who are the co-owners of the business". The authority for its creation rests in the common law "right of voluntary association".

There can be no partnership without the expressed intention of all partners. The legal basis for the partnership is usually a written document called the Articles of Association. The law in most countries recognises two forms of partnerships: The general and unlimited partnerships.

### Forming the partnership

Basic to all partnerships is an agreement of intent which may be oral, implied by actions or written down.

Partnership Agreement— the provisions agreed upon by partners are written down and form a partnership agreement. A common partnership agreement will have the following elements:

- (a) Name of the partnership
- (b) Names of the partners
- (c) Location of business
- (d) Addresses of partners
- (e) Nature of business
- (f) Intended duration of business
- (g) Amount of contribution, either cash or otherwise made by each partner
- (h) Amount of time each partner will devote to the business
- (i) Provisions for salaries or drawing account for partners
- (j) Dissolution of profits and losses
- (k) Duties/responsibilities of each partner
- (l) Procedure regarding the way in which the books are to be closed upon death or withdrawn by one of the partners.

(m) Special dissolution procedures
(n) Methods of resolving disagreements
(o) Use of life insurance to purchase protection for surviving partners.

**Advantages of partnerships**

In some respects the partnership is like the sole proprietorship therefore enjoys similar advantages for example few legal restrictions.

Others:

(a) Partners are able to raise more capital as each chips in.
(b) It has the advantage of management skills as each partner has special competence.
(c) Each partner brings different ideas into the partnership so they can complement each other.

**Disadvantages of partnerships**

The partnership has the following disadvantages:

(a) The chief weaknesses of the partnership is personal liability of each partner. If for instance one partner enters a contract that forces the firm to be bankrupt, all the partners are liable to cover the debts, i.e. each one of them can be followed regardless of whether he/she is the one who entered into the contract. The decisions made by any partner are binding to the others.

(b) Lack of continuity:

The death of a partner dissolves the business—also the disability of a partner may force an end to the business. The acceptance of a partner to buy the interest of the dead partner is not always easy.

(c) Frozen investments:

In case of one partner wanting to leave, it may be difficult for him to withdraw his funds from a going concern. The remaining partners may not have enough money to purchase the shares of the departing partner, or they may be unable to agree on taking on a new partner who could supply the funds. It may also be difficult to agree on a fair price for each partner's shares. Therefore before entering a partnership one must realise that withdrawal of money could be a problem.

**Advantages of Being Small**

1. Freedom of action and decision making for owner, manager
2. The owner, manager can take quick decisions/actions where situations change. (No need to consult with others).
3. Little working capital—so many Kenyans can start small businesses.
4. Better supervision and control.
5. Since owners are members of local community they can assess market needs better.

**Disadvantages of Being Small**

1. Lack of specialisation—the owner manager does all activities, buying, store-keeping, personnel, accounting, marketing, etc.

2. Difficulties in raising additional capital either for expansion or renovations.
3. Cannot attract qualified employees as it does not offer job security.

4. Lack of continuity.

**Small Business Failures**

In Kenya for instance the rate at which small businesses fail is quite alarming. There are multitudes of reasons why small businesses fail. Usually the problem stems from the start of the business:

(a) Inappropriate initial skills of the owners/managers. (Most people once they save a little money just start a business in the line which others have succeeded without a full knowledge of the industry, the risks involved and the activities required. A case in point is the matatu business, hairdressing, dressmaking etc.

(b) There is general lack of entrepreneurship culture in respect to managers/investors. They may not draw the line between themselves and their business.

(c) Lack of financial and technological resources to sustain a small scale business—a business must be able to respond to market changes very fast. Small businesses may be unable to cope.

Expanded these three points will bring the following reasons for small business failure:

**1. Management reasons:**

Owner/manager lacks management skills so he makes poor decisions e.g. inappropriate business structure where it is not clear who is actually in charge of what. Family businesses do suffer this weakness very much. The owner/manager lacks knowledge of the business especially of the whole industry so he makes uniformed decisions.

He may have poor personality, e.g he may fail to get along with employees or clients or he may actually be lazy and since he is the boss, there are no controls on him. A poor personality will also mean he cannot attract customers.

2. **Money problems:**

   i. Lack of enough capital to buy stocks.
   ii. Giving too much credit.
   iii. Owner and/or family take too much money out of the business.

iv. Difficulty in obtaining financing especially from banks because he cannot raise collateral.

3. **Poor planning:**

i. Poor choice of business location.
ii. Inability to understand market changes and projections into the future.

iii. Failure to understand effects of changing economic activities e.g. interest rates, pricing, distribution and currency fluctuations.

iv. Failure to plan future needs, i.e. lack of budgets or forecasts.

4. **Poor marketing reasons:**

i. Failure to stock the right products.

ii. Failure to establish lasting relationships with the market i.e. cannot acquire "Loyal customers".

iii. Poor advertising—or failure to do any promotion at all e.g. no directions to his business place. People are therefore unaware of his existence.

iv. Failure to take part in community affairs. So customers develop negative attitudes towards the owner and his business (common in Kenya especially with Asian owned businesses).
v. Unacceptable business practices e.g hoarding, overcharging and tied selling.

vi. Failure to meet competition either through competitive pricing or promotion.

5. **Accounting reasons:**

i. Poor book-keeping. Therefore no records of credits, debts, or stocks.
ii. Inadequate tax records.

6. **Other reasons outside the control of owner manager**

i. Accidents
ii. Government intervention
iii. Political instability
iv. Natural disasters

**Note**

In Kenya these reasons for business failure arise from our environmental factors e.g. the socio-cultural factors (the greater population is illiterate. They cannot read or write).

- Some failure can be traced to lack of necessary training in the critical areas of business.
- The political legal factors e.g general lack of support from the government, and poor knowledge of the legal requirements.
- The seasonal nature of demand levels as demand is directly tied to earnings which are tied to sale of agricultural products.

So some causes of failure among small businesses are not under the control of owners and this makes it difficult for the owner managers to incorporate such factors in their business management.

**What Is Meant By Business Failure?**

When a business fails most people say it is broke or it has gone bankrupt. However, these statements may mean several things so we may say a business fails when:-

(a) The firm goes out of business.
(b) The firm closes down. Here owners shut down their business willingly.
(c) The firm fails to meet its obligations:

   i. Pay salaries
   ii. Pay debts
   iii. Pay expenses
   iv. Make profits

These failures will be shown by the following:-

- High operating costs
- Falling profits
- Increasing debts
- High employee turnover
- Unserviced equipment
- Falling stocks

**Note**

all businesses that go out of business actually fail, some just stop operating mostly for such reasons as retirement or death of the owner.

**What Makes A Business Succeed**

(a) Good management on part of the owners. This goes along with total commitment and willingness to work long and odd hours.
(b) Good leadership which means responsibility, honesty and willingness to work with others.

(c) In case of partnerships, partners should have good interpersonal relationships, i.e. they should be able to get along and to agree over decision making.
(d) Proper use and application of business funds. Owners should avoid giving too much credit or using business funds for other purposes especially prematurely.
(e) Good planning especially on the products, location, organization and promotion of the business.
(f) Constant checks by independent parties will help pinpoint any problem areas.
(g) Owners/managers seek help especially technical help from experts.
(h) They should ensure continuity by training somebody to take over.

**Business Financing**

Before entering into a business, the owner manager should be able to determine the capital needs of his business.

Capital includes both money used to start the business and other credits from manufacturers, wholesalers and others. The two types of capital are working capital (operating) or (day to day running) and fixed capital, the owner must be able to raise enough of both if the business is to succeed.

Capital needs will however vary according to size and business objectives. All in all successful businesses must have enough working capital, enough managerial competence and they must meet a need that exists in the community.

**Sources Of Business Funds**

In operating the business, one needs sufficient finance for the following:

1. Purchases
2. Pay salaries
3. Buy premises
4. Buy equipment
5. Pay expenses e.g. bills
6. Incidental costs

The sources of these finances may be:

1. Funds (savings)
2. Family members — Equity money
3. Friends/associates

If the funds required are more than can be realised through equity, money is then borrowed. This additional fund is called DEBT-MONEY. There are many forms of debts money depending on.

The source (lender)
Maturity of the debt
How much and mode of repayment.

In Kenya debt money could either be from commercial banks, financial institutions, or from employees, cooperative societies or companies with such facilities e.g. K.I.E. and ICDC.

Debt money is either short-term (credits given for short periods by suppliers, wholesalers or bank overdrafts) or long-term (given by commercial lenders on production of security and to be bonded for some reasonably long period.

**Sourcing For Funds**

Not all the sources of funds are good for all types of business. Before one can select a source of fund, there are certain areas that one must be very clear about.

(a) The conditions for borrowing imposed by the lender (Bank).

    i. Whether the bank needs security and what type of security. Does the business have the necessary security?
    ii. Re-payment period. How long is the term of credit and how are the monthly instalments. Can the business comfortably meet these repayments?
    iii. The interest rates (cost of money) and how they are likely to change and how they would affect the business if they did change.

(b) Know all the factors both internal and external that would affect the success of your business and how these factors are likely to change in the present and in the future.
(c) Must know about the environment of the business and especially of the lenders business and the movements that are likely to take place in the banking industry.
(d) The businessman must be able to evaluate his business competence to see whether it is in a position to meet the conditions and requirements of the lender.
(e) He must be able to evaluate and compare the amount of risk and the financing obligations taken on when the loan is given.

**Note**

Sourcing for funds the businessman may make the following mistakes:

1. Asking too many sources for funds
2. Failing to state obvious shortcomings
3. Overlooking serious defects in the business or debt source
4. Defining the business too narrowly.

**Note**

The credibility of the borrower is very important in getting funds so one should be able to be honest, reliable and of high integrity.

**Importance Of Small Business To The Economy**

(a) Make significant contributions towards employment. In Kenya the rate at which Jua Kali sector is creating employment is encouraging.

(b) Small business provides the economy with financial vitality. Overhead costs are low and can respond to external changes faster than big ones. They are quick to adapt to changing demands.

(c) Small businesses are also a main source of innovation e.g. the Jua Kali sector with things like energy saving stoves.

**Reasons For Small Business**

(a) Becoming one_s boss. The desire to be one_s own boss is a powerful motive for people to venture into small businesses.

(b) Providing job opportunities through self employment. Few chances in white collar employment is forcing many into small businesses.

(c) Realizing enterpreneural dreams. Some people have entrepreneural desire to want to make more money than in regular employment.

**Critical Success Factors In Small Business**

(a) Learning the trade. An overriding reason for failure is lack of knowledge about the business. No knowledge of the market and their competitive strength and what is actually involved in running the company.
One can learn the trade by working for others or start as a Franchisee (right or licence owner using the product or the production or selling method of a product or service developed by another company known as the Franchiser).

(b) Gaining a competitive edge. i.e delivering better than competitors. May be by low pricing, differential product, through better quality, or by finding a niche in the market by serving a limited segment of the market.

(c) Getting the most from employees. Employees can break or make a business as they are the ones who carry out the firms business plans. Adequate compensation and provision for development and responsibility are important.

**Note**

Small businesses succeed or fail for the same reasons that large companies succeed or fail. The critical success factors that apply to large corporations also apply to small businesses. The (CSFS) are:

Business Expertise
Operational Efficiency
People Management.

Of the three CSFS business expertise stands out as the most critical factor for the success of small businesses. Unlike large companies which rely on the expertise of many people, small companies often depend on the expertise of one-owner manager or a few partners.