Corporate Governance

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Corporate Governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. An important theme of corporate governance is the nature and extent of accountability of particular individuals in the organization, and mechanisms that try to reduce or eliminate the principal-agent problem.

Principles of corporate governance

1) **Rights and equitable treatment of shareholders** : Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

2) **Interests of other stakeholders** : Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

3) <u>**Role and responsibilities of the board**</u> : The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment to fulfil its responsibilities and duties.

4) <u>**Integrity and ethical behavior**</u> : Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

5) **Disclosure and transparency** : Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Corporate governance models

There are many different models of corporate governance around the world. These differ according to the variety of capitalism in which they are embedded. The Anglo-American "model" tends to emphasize the interests of shareholders. The coordinated or multi-stakeholder model associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community.

- **Continental Europe** :

  Some continental European countries, including Germany and Holland, require a two-tiered Board of Directors as a means of improving corporate governance. In the two-tiered board, the Executive Board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors who represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions.

- **India** :

  India's SEBI Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company. It has been suggested that the Indian approach is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution, but this conceptualization of corporate objectives is also prevalent in Anglo-American and most other jurisdictions.

- **The United States and the United Kingdom** :

  The so-called "Anglo-American model" (also known as "the unitary system") emphasizes a single-tiered Board of Directors composed of a mixture of executives from the company and non-executive directors, all of whom are elected by shareholders. Non-executive directors are expected to outnumber executive directors and hold key posts, including audit and compensation committees. The United States and the United Kingdom differ in one critical respect with regard to corporate governance: In the United Kingdom, the CEO generally does not also serve as Chairman of the Board, whereas in the US having the dual role is the norm, despite major misgivings regarding the impact on corporate governance.

- **Legal environment – General :**
- Corporations are created as legal persons by the laws and regulations of a particular jurisdiction. These may vary in many respects between countries, but a corporation's legal person status is fundamental to all jurisdictions and is conferred by statute. This allows the entity to hold property in its own right without reference to any particular real person. It also results in the perpetual existence that characterizes the modern corporation. The statutory granting of corporate existence may arise from general purpose legislation (which is the general case) or from a statute to create a specific corporation, which was the only method prior to the 19th century.

- In addition to the statutory laws of the relevant jurisdiction, corporations are subject to common law in some countries, and various laws and regulations affecting business practices. In most jurisdiction, corporations also have a constitution that provides individual rules that govern the corporation and authorize or constrain its decision-makers. This constitution is identified by a variety of terms; in English-speaking jurisdictions, it is usually known as the Corporate Charter or the Memorandum and Articles of Association. The capacity of shareholders to modify the constitution of their corporation can vary substantially.

CODES & GUIDELINES

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations.

I) **OECD** : The OECD guidelines are often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations and more than 20 national corporate governance codes, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has produced their Guidance on Good Practices in Corporate Governance Disclosure. This internationally agreed benchmark consists of more than fifty distinct disclosure items across five broad categories:

- Auditing
- Board and management structure and process
- Corporate responsibility and compliance
- Financial transparency and information disclosure
- Ownership structure and exercise of control rights

2) International Corporate Governance Network (ICGN) : The investor-led organisation International Corporate Governance Network (ICGN) was set up by individuals centered around the ten largest pension funds in the world 1995. The aim is to promote global corporate governance standards. ICGN has developed a suite of global guidelines ranging from shareholder rights to business ethics.

Parties to Corporate Governance

1) Government Agencies and Authorities
2) Stock Exchanges
3) Management (including the Board of Directors and its Chair
4) The Chief Executive Officer or the equivalent
5) Other Executives and line management
6) Shareholders and Auditors
7) Other influential stakeholders may include lenders, suppliers, employees, creditors, customers and the community at large.

1) <u>Government Agencies</u> : The agency view of the corporation posits that the shareholder forgoes decision rights (control) and entrusts the manager to act in the shareholders' best (joint) interests. Partly as a result of this separation between the two investors and managers, corporate governance mechanisms include a system of controls intended to help align managers' incentives with those of shareholders. Agency concerns (risk) are necessarily lower for a controlling shareholder.

2) <u>Board of Directors</u> : A board of directors is expected to play a key role in corporate governance. The board has the responsibility of endorsing the organization's strategy, developing directional policy, appointing, supervising and remunerating senior executives, and ensuring accountability of the organization to its investors and authorities.

Ownership structures & elements

Ownership structure refers to the types and composition of shareholders in a corporation. Researchers often "measure" ownership structures by using some observable measures of ownership concentration or the extent of inside ownership.

- **Features / Types** : Some features or types of ownership structure involving corporate groups include pyramids, cross-shareholdings, rings, and webs.
  - German "concerns" (Konzern
  - Japanese keiretsu
  - South Korean chaebol (which tend to be family-controlled)

The above corporate groups consist of complex interlocking business relationships and shareholdings. Cross-shareholding are an essential feature of keiretsu and chaebol groups). Corporate engagement with shareholders and other stakeholders can differ substantially across different ownership structures.

Ownership structures & elements

❖ **Family Ownership :**

1) In many jurisdictions, family interests dominate ownership structures. It is sometimes suggested that corporations controlled by family interests are subject to superior oversight compared to corporations "controlled" by institutional investors (or with such diverse share ownership that they are controlled by management).

2) A recent study by Credit Suisse found that companies in which "founding families retain a stake of more than 10% of the company's capital enjoyed a superior performance over their respective sectorial peers." Since 1996, this superior performance amounts to 8% per year.

Ownership structures & elements

- **Institutional Investors** :

1) Many years ago, worldwide, investors were typically individuals or families, irrespective of whether or not they acted through a controlled entity. Over time, markets have become largely *institutionalized*: investors are largely institutions that invest the pooled funds of their intended beneficiaries. These **institutional investors** include pension funds (also known as superannuation funds), mutual funds, hedge funds, exchange-traded funds, and financial institutions such as insurance companies and banks.

2) The significance of institutional investors varies substantially across countries. In developed Anglo-American countries (Australia, Canada, New Zealand, U.K., U.S.), institutional investors dominate the market for stocks in larger corporations. While the majority of the shares in the Japanese market are held by financial companies and industrial corporations, these are not institutional investors if their holdings are largely with-on group.

3) The largest pools of invested money (such as the mutual fund 'Vanguard 500', or the largest investment management firm for corporations, State Street Corp.) are designed to maximize the benefits of diversified investment by investing in a very large number of different corporations with sufficient liquidity. The idea is this strategy will largely eliminate individual firm financial or other risk and. A consequence of this approach is that these investors have relatively little interest in the governance of a particular corporation. It is often assumed that, if institutional investors pressing for will likely be costly because of "golden handshakes") or the effort required, they will simply sell out their interest.

Mechanisms & controls

Internal Corporate Governance Control

- **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.

- <u>**Internal control procedures and internal auditors**</u>:

  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.

- <u>**Balance of power**</u>:

  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 behaviour, and can elicit myopic behaviour.

External Corporate Governance Control

External corporate governance controls encompass the controls external stakeholders exercise over the organization.

For eg.:

- Competition
- Debt Covenants
- Demand for and assessment of performance information (especially financial statements)
- Government regulations
- Managerial Labour Market
- Media Pressure
- Takeovers

Financial reporting and independent auditor

- The board of directors has primary responsibility for the corporation's external financial reporting functions. The Chief Executive Officer and Chief Financial Officer are crucial participants and boards usually have a high degree of reliance on them for the integrity and supply of accounting information. They oversee the internal accounting systems, and are dependent on the corporation's accountants and internal auditors.

- Current accounting rules under International Accounting Standards and U.S. GAAP allow managers some choice in determining the methods of measurement and criteria for recognition of various financial reporting elements. Financial reporting fraud, including non-disclosure and deliberate falsification of values also contributes to users' information risk. To reduce these risk and to enhance the perceived integrity of financial reports, corporation financial reports must be audited by an independent external auditor who issues a report that accompanies the financial statements (see financial audit).

- One area of concern is whether the auditing firm acts as both the independent auditor and management consultant to the firm they are auditing. This may result in a conflict of interest which places the integrity of financial reports in doubt due to client pressure to appease management. The power of the corporate client to initiate and terminate management consulting services and, more fundamentally, to select and dismiss accounting firms contradicts the concept of an independent auditor.

Systematic Problems of Corporate Governance

1) **Demand for information**: In order to influence the directors, the shareholders must combine with others to form a voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.

2) **Monitoring costs**: A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder. The traditional answer to this problem is the efficient market hypothesis (in finance, the efficient market hypothesis (EMH) asserts that financial markets are efficient), which suggests that the small shareholder will free ride on the judgments of larger professional investors.

3) <u>Supply of accounting information</u>: Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance. This should, ideally, be corrected by the working of the external auditing process.

Executive Remuneration / Compensation

1) Research on the relationship between firm performance and executive compensation does not identify consistent and significant relationships between executives' remuneration and firm performance. Not all firms experience the same levels of agency conflict, and external and internal monitoring devices may be more effective for some than for others.

2) Some researchers have found that the largest CEO performance incentives came from ownership of the firm's shares, while other researchers found that the relationship between share ownership and firm performance was dependent on the level of ownership. The results suggest that increases in ownership above 20% cause management to become more entrenched, and less interested in the welfare of their shareholders.

3) Some argue that firm performance is positively associated with share option plans and that these plans direct managers' energies and extend their decision horizons toward the long-term, rather than the short-term, performance of the company. However, that point of view came under substantial criticism circa in the wake of various security scandals including mutual fund timing episodes and, in particular, the backdating of option grants as documented by University of Iowa academic Erik Lie and reported by James Blander and Charles Forelle of the *Wall Street Journal*.

4) Even before the negative influence on public opinion caused by the 2006 backdating scandal, use of options faced various criticisms. A particularly forceful and long running argument concerned the interaction of executive options with corporate stock repurchase programs. Numerous authorities (including U.S. Federal Reserve Board economist Weisbenner) determined options may be employed in concert with stock buybacks in a manner contrary to shareholder interests. These authors argued that, in part, corporate stock buybacks for U.S. Standard & Poors 500 companies surged to a $500 billion annual rate in late 2006 because of the impact of options. A compendium of academic works on the option/buyback issue is included in the study *Scandal* by author M. Gumport issued in 2006.

5) A combination of accounting changes and governance issues led options to become a less popular means of remuneration as 2006 progressed, and various alternative implementations of buybacks surfaced to challenge the dominance of "open market" cash buybacks as the preferred means of implementing a share repurchase plan.

Business Ethics

Business ethics (also **corporate ethics**) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

1) Business ethics has both normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns.

2) Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters.

3) Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

4) Business ethics reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are legally considered as persons in USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities due to citizens as persons.

5) Ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbours, its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-overs and industrial espionage. Related issues include corporate governance; corporate social entrepreneurship; political contributions; legal issues such as the ethical debate over introducing a crime of corporate manslaughter; and the marketing of corporations' ethics policies.

Functional Business Areas

- **Finance** :

1) Fundamentally, finance is a social science discipline. The discipline borders behavioural economics, sociology, economics, accounting and management. It concerns technical issues such as the mix of debt and equity, dividend policy, the evaluation of alternative investment projects, options, futures, swaps, and other derivatives, portfolio diversification and many others.

2) It is often mistaken to be a discipline free from ethical burdens. The 2008 financial crisis caused critics to challenge the ethics of the executives in charge of U.S. and European financial institutions and financial regulatory bodies. Finance ethics is overlooked for another reason—issues in finance are often addressed as matters of law rather than ethics.

❖ **Finance Paradigm** :

1) A section of economists influenced by the ideology of neoliberalism, interpreted the objective of economics to be maximization of economic growth through accelerated consumption and production of goods and services. Neoliberal ideology promoted finance from its position as a component of economics to its core. Proponents of the ideology hold that unrestricted financial flows, if redeemed from the shackles of "financial repressions", best help impoverished nations to grow.

2) The theory holds that open financial systems accelerate economic growth by encouraging foreign capital inflows, thereby enabling higher levels of savings, investment, employment, productivity and "welfare", along with containing corruption. Neoliberals recommended that governments open their financial systems to the global market with minimal regulation over capital flows. The recommendations however, met with criticisms from various schools of ethical philosophy.

3) Some pragmatic ethicists, found these claims to unfalsifiable and a priori, although neither of these makes the recommendations false or unethical per se. Raising economic growth to the highest value necessarily means that welfare is subordinate, although advocates dispute this saying that economic growth provides more welfare than known alternatives. Since history shows that neither regulated nor unregulated firms always behave ethically, neither regime offers an ethical panacea.

4) Neoliberal recommendations to developing countries to unconditionally open up their economies to transnational finance corporations was fiercely contested by some ethicists. The claim that deregulation and the opening up of economies would reduce corruption was also contested.

5) Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payments, internal audit, external audit and executive compensation also fall under the umbrella of finance and accounting. Particular corporate ethical/legal abuses include: creative accounting, earnings management, misleading financial analysis insider trading, securities fraud, bribery/kickbacks and facilitation payments. Outside of corporations, bucket shops and forex scams are criminal manipulations of financial markets. Cases include accounting scandals, Enron, WorldCom and Satyam.

Human Resource Management

1) Human resource management occupies the sphere of activity of recruitment selection, orientation, performance appraisal, training and development, industrial relations and health and safety issues. Business Ethicists differ in their orientation towards labour ethics. Some assess human resource policies according to whether they support an egalitarian workplace and the dignity of labour.

2) Issues including employment itself, privacy, compensation in accord with comparable worth, collective bargaining (and/or its opposite) can be seen either as inalienable rights or as negotiable. Discrimination by age (preferring the young or the old), gender/sexual harassment, race, religion, disability, weight and attractiveness. A common approach to remedying discrimination is affirmative action.

3) Potential employees have ethical obligations to employers, involving intellectual property protection and whistle-blowing.

4) Employers must consider workplace safety, which may involve modifying the workplace, or providing appropriate training or hazard disclosure.

5) Larger economic issues such as immigration, trade policy, globalization and trade unionism affect workplaces and have an ethical dimension, but are often beyond the purview of individual companies.

Trade Union

1) Unions for example, may push employers to establish due process for workers, but may also cost jobs by demanding unsustainable compensation and work rules.

2) Unionized workplaces may confront union busting and strike breaking and face the ethical implications of work rules that advantage some workers over others.

Management Strategy

- Among the many people management strategies that companies employ are a "soft" approach that regards employees as a source of creative energy and participants in workplace decision making, a "hard" version explicitly focused on control and Theory Z that emphasizes philosophy, culture and consensus. None ensure ethical behaviour. Some studies claim that sustainable success requires a humanely treated and satisfied workforce.

Sales & Marketing

❖ **Marketing Ethics** :

1) Marketing Ethics came of age only as late as 1990s. Marketing ethics was approached from ethical perspectives of virtue or virtue ethics, deontology, consequentialism, pragmatism and relativism.

2) Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act. Marketing ethics is also contested terrain, beyond the previously described issue of potential conflicts between profitability and other concerns. Ethical marketing issues include marketing redundant or dangerous products/services transparency about environmental risks, transparency about product ingredients such as genetically modified organisms possible health risks, financial risks, security risks, etc., respect for consumer privacy and autonomy, advertising truthfulness and fairness in pricing & distribution.[

3) According to Borgerson, and Schroeder (2008), marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions.

4) Marketing ethics involves pricing practices, including illegal actions such as price fixing and legal actions including price discrimination and price skimming. Certain promotional activities have drawn fire, including greenwashing, bait and switch, shilling, viral marketing, spam (electronic), pyramid schemes and multi-level marketing. Advertising has raised objections about attack ads, subliminal messages, sex in advertising and marketing in schools.

Production

- This area of business ethics usually deals with the duties of a company to ensure that products and production processes do not needlessly cause harm. Since few goods and services can be produced and consumed with zero risk, determining the ethical course can be problematic. In some case consumers demand products that harm them, such as tobacco products.

- Production may have environmental impacts, including pollution, habitat destruction and urban sprawl. The downstream effects of technologies nuclear power, genetically modified food and mobile phones may not be well understood.

- While the precautionary principle may prohibit introducing new technology whose consequences are not fully understood, that principle would have prohibited most new technology introduced since the industrial revolution. Product testing protocols have been attacked for violating the rights of both humans and animals.

Property

- The etymological root of property is the Latin 'proprius' which refers to 'nature', 'quality', 'one's own', 'special characteristic', 'proper', 'intrinsic', 'inherent', 'regular', 'normal', 'genuine', 'thorough, complete, perfect' etc. The word property is value loaded and associated with the personal qualities of propriety and respectability, also implies questions relating to ownership. A 'proper' person owns and is true to herself or himself, and is thus genuine, perfect and pure.

Modern History of Property Rights

- Modern discourse on property emerged by the turn of 17th century within theological discussions of that time. For instance, John Locke justified property rights saying that God had made "the earth, and all inferior creatures, [in] common to all men".

- In 1802 Utilitarian Jeremy Bentham stated, "property and law are born together and die together".

- One argument for property ownership is that it enhances individual liberty by extending the line of non-interference by the state or others around the person. Seen from this perspective, property right is absolute and property has a special and distinctive character that precedes its legal protection. Blackstone conceptualized property as the "sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe".

Slaves as Property

- During the seventeenth and eighteenth centuries, slavery spread to European colonies including America, where colonial legislatures defined the legal status of slaves as a form of property. During this time settlers began the centuries-long process of dispossessing the natives of America of millions of acres of land. Ironically, the natives lost about 200,000 square miles (520,000 km^2) of land in the Louisiana Territory under the leadership of Thomas Jefferson, who championed property rights.

- Combined with theological justification, property was taken to be essentially natural ordained by God. Property, which later gained meaning as ownership and appeared natural to Locke, Jefferson and to many of the 18th and 19th century intellectuals as land, labour or idea and property right over slaves had the same theological and essentialized justification. It was even held that the property in slaves was a sacred right. Wiecek noted, "slavery was more clearly and explicitly established under the Constitution as it had been under the Articles". Accordingly, US Supreme Court Chief Justice Roger B. Taney in his 1857 judgment stated, "The right of property in a slave is distinctly and expressly affirmed in the Constitution".

Natural Rights Vs. Social Construct

1) Neoliberals hold that private property rights are a non-negotiable natural right. Davies counters with "property is no different from other legal categories in that it is simply a consequence of the significance attached by law to the relationships between legal persons.“ Singer claims, "Property is a form of power, and the distribution of power is a political problem of the highest order".

2) Rose finds, "'Property' is only an effect, a construction, of relationships between people, meaning that its objective character is contestable. Persons and things, are 'constituted' or 'fabricated' by legal and other normative techniques.". Singer observes, "A private property regime is not, after all, a Hobbesian state of nature; it requires a working legal system that can define, allocate, and enforce property rights." Davis claims that common law theory generally favours the view that "property is not essentially a 'right to a thing', but rather a separable bundle of rights subsisting between persons which may vary according to the context and the object which is at stake".

3) In common parlance property rights involve a 'bundle of rights' including occupancy, use and enjoyment, and the right to sell, devise, give, or lease all or part of these rights. Custodians of property have obligations as well as rights. Michelman writes, "A property regime thus depends on a great deal of cooperation, trustworthiness, and self-restraint among the people who enjoy it."

4) In the neoliberal literature, property is part of the private side of a public/private dichotomy and acts a counterweight to state power. Davies counters that "any space may be subject to plural meanings or appropriations which do not necessarily come into conflict".

5) Private property has never been a universal doctrine, although since the end of the Cold War is it has become nearly so. Some societies, e.g., Native American bands, held land, if not all property, in common. When groups came into conflict, the victor often appropriated the loser's property. The rights paradigm tended to stabilize the distribution of property holdings on the presumption that title had been lawfully acquired.

6) Property does not exist in isolation, and so property rights too. Bryan claimed that property rights describe relations among people and not just relations between people and things. Singer holds that the idea that owners have no legal obligations to others wrongly supposes that property rights hardly ever conflict with other legally protected interests. Singer continues implying that legal realists "did not take the character and structure of social relations as an important independent factor in choosing the rules that govern market life". Ethics of property rights begins with recognizing the vacuous nature of the notion of property.

Intellectual Property

1) Intellectual Property (IP) encompasses expressions of ideas, thoughts, codes and information. "Intellectual Property Rights" (IPR) treat IP as a kind of real property, subject to analogous protections, rather than as a reproducible good or service. Boldrin and Levine argue that "government does not ordinarily enforce monopolies for producers of other goods. This is because it is widely recognized that monopoly creates many social costs. Intellectual monopoly is no different in this respect. The question we address is whether it also creates social benefits commensurate with these social costs."

2) International standards relating to Intellectual Property Rights are enforced through Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). In the US, IP other than copyrights is regulated by the United States Patent and Trademark Office.

3) The US Constitution included the power to protect intellectual property, empowering the Federal government "*to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries"*. Boldrin and Levine see no value in such state-enforced monopolies stating, "we ordinarily think of innovative monopoly as an oxymoron. Further they comment, 'intellectual property' "is not like ordinary property at all, but constitutes a government grant of a costly and dangerous private monopoly over ideas. We show through theory and example that intellectual monopoly is not necessary for innovation and as a practical matter is damaging to growth, prosperity, and liberty".

4) Steelman defends patent monopolies, writing, "Consider prescription drugs, for instance. Such drugs have benefited millions of people, improving or extending their lives. Patent protection enables drug companies to recoup their development costs because for a specific period of time they have the sole right to manufacture and distribute the products they have invented." The court cases by 39 pharmaceutical companies against South Africa's 1997 Medicines and Related Substances Control Amendment Act, which intended to provide affordable HIV medicines has been cited as a harmful effect of patents.

5) One attack on IPR is moral rather than utilitarian, claiming that inventions are mostly a collective, cumulative, path dependent, social creation and therefore, no one person or firm should be able to monopolize them even for a limited period. The opposing argument is that the benefits of innovation arrive sooner when patents encourage innovators and their investors to increase their commitments.

6) Roderick Long, a libertarian philosopher, observes, "Ethically, property rights of any kind have to be justified as extensions of the right of individuals to control their own lives. Thus any alleged property rights that conflict with this moral basis—like the "right" to own slaves—are invalidated. In my judgment, intellectual property rights also fail to pass this test.

7) To enforce copyright laws and the like is to prevent people from making peaceful use of the information they possess. If you have acquired the information legitimately (say, by buying a book), then on what grounds can you be prevented from using it, reproducing it, trading it? Is this not a violation of the freedom of speech and press? It may be objected that the person who originated the information deserves ownership rights over it. But information is not a concrete thing an individual can control; it is a universal, existing in other people's minds and other people's property, and over these the originator has no legitimate sovereignty.

8) You cannot own information without owning other people". Machlup concluded that patents do not have the intended effect of enhancing innovation. Self-declared anarchist Proudhon, in his 1847 seminal work noted, "Monopoly is the natural opposite of competition," and continued, "Competition is the vital force which animates the collective being: to destroy it, if such a supposition were possible, would be to kill society"

9) Mindeli and Pipiya hold that the knowledge economy is an economy of abundance because it relies on the "infinite potential" of knowledge and ideas rather than on the limited resources of natural resources, labour and capital.

10) Allison envisioned an egalitarian distribution of knowledge. Kinsella claims that IPR create artificial scarcity and reduce equality. Bouckaert wrote, "Natural scarcity is that which follows from the relationship between man and nature. Scarcity is natural when it is possible to conceive of it before any human, institutional, contractual arrangement. Artificial scarcity, on the other hand, is the outcome of such arrangements. Artificial scarcity can hardly serve as a justification for the legal framework that causes that scarcity. Such an argument would be completely circular. On the contrary, artificial scarcity itself needs a justification".

11) Corporations fund much IP creation and can acquire IP they do not create, to which Menon and others object. Andersen claims that IPR has increasingly become an instrument in eroding public domain.

12) Ethical and legal issues include: Patent infringement, copyright infringement, trademark infringement, patent and copyright misuse, submarine patents, gene patents, patent, copyright and trademark trolling, Employee raiding and monopolizing talent, Bioprospecting, biopiracy and industrial espionage, digital rights management.

13) Notable IP copyright cases include Napster, Eldred v. Ashcroft and Air Pirates.

International Issues

- While business ethics emerged as a field in the 1970s, international business ethics did not emerge until the late 1990s, looking back on the international developments of that decade. Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values receive more emphasis in this field. Other, older issues can be grouped here as well.

Issues and subfields include:

- The search for universal values as a basis for international commercial behaviour.
- Comparison of business ethical traditions in different countries. Also on the basis of their respective GDP and [Corruption rankings].
- Comparison of business ethical traditions from various religious perspectives.
- Ethical issues arising out of international business transactions; e.g., bioprospecting and biopiracy in the pharmaceutical industry; the fair trade movement; transfer pricing.
- Issues such as globalization and cultural imperialism.
- Varying global standards—e.g., the use of child labour.
- The way in which multinationals take advantage of international differences, such as outsourcing production (e.g. clothes) and services (e.g. call centres) to low-wage countries.
- The permissibility of international commerce with pariah states.

- The success of any business depends on its financial performance. Financial accounting helps the management to report and also control the business performance.

- The information regarding the financial performance of the company plays an important role in enabling people to take right decision about the company. Therefore, it becomes necessary to understand how to record based on accounting conventions and concepts ensure unambling and accurate records.

- Foreign countries often use dumping as a competitive threat, selling products at prices lower than their normal value. This can lead to problems in domestic markets. It becomes difficult for these markets to compete with the pricing set by foreign markets. In 2009, the International Trade Commission has been researching anti-dumping laws. Dumping is often seen as an ethical issue, as larger companies are taking advantage of other less economically advanced companies.

Economic Systems

- Political economy and political philosophy have ethical implications, particularly regarding the distribution of economic benefits. John Rawls and Robert Nozick are both notable contributors. For example, Rawls has been interpreted as offering a critique of offshore outsourcing on social contract grounds, whereas Nozick's libertarian philosophy rejects the notion of any positive corporate social obligation.

Law & Regulation

- Very often it is held that business is not bound by any ethics other than abiding by the law. Milton Friedman is the pioneer of the view. He held that corporations have the obligation to make a profit within the framework of the legal system, nothing more. Friedman made it explicit that the duty of the business leaders is, "to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom". Ethics for Friedman is nothing more than abiding by 'customs' and 'laws'. The reduction of ethics to abidance to laws and customs however have drawn serious criticisms.

- Counter to Friedman's logic it is observed that legal procedures are technocratic, bureaucratic, rigid and obligatory where as ethical act is conscientious, voluntary choice beyond normativity. Law is retroactive. Crime precedes law. Law against a crime, to be passed, the crime must have happened. Laws are blind to the crimes undefined in it.

- Further, as per law, "conduct is not criminal unless forbidden by law which gives advance warning that such conduct is criminal. *Also, law presumes the accused is innocent until proven guilty and that the state must establish the guilt of the accused beyond reasonable doubt. As per liberal laws followed in most of the democracies, until the government prosecutor proves the firm guilty with the limited resources available to her, the accused is considered to be innocent. Though the liberal premises of law is necessary to protect individuals from being persecuted by Government, it is not a sufficient mechanism to make firms morally accountable.*

CORPORATE POLICIES

1) As part of more comprehensive compliance and ethics programs, many companies have formulated internal policies pertaining to the ethical conduct of employees. These policies can be simple exhortations in broad, highly generalized language (typically called a corporate ethics statement), or they can be more detailed policies, containing specific behavioural requirements (typically called corporate ethics codes). They are generally meant to identify the company's expectations of workers and to offer guidance on handling some of the more common ethical problems that might arise in the course of doing business. It is hoped that having such a policy will lead to greater ethical awareness, consistency in application, and the avoidance of ethical disasters.

2) An increasing number of companies also require employees to attend seminars regarding business conduct, which often include discussion of the company's policies, specific case studies, and legal requirements. Some companies even require their employees to sign agreements stating that they will abide by the company's rules of conduct.

3) Many companies are assessing the environmental factors that can lead employees to engage in unethical conduct. A competitive business environment may call for unethical behaviour. Lying has become expected in fields such as trading. An example of this are the issues surrounding the unethical actions of the Saloman Brothers.

4) Not everyone supports corporate policies that govern ethical conduct. Some claim that ethical problems are better dealt with by depending upon employees to use their own judgment.

5) Others believe that corporate ethics policies are primarily rooted in utilitarian concerns, and that they are mainly to limit the company's legal liability, or to curry public favour by giving the appearance of being a good corporate citizen. Ideally, the company will avoid a lawsuit because its employees will follow the rules. Should a lawsuit occur, the company can claim that the problem would not have arisen if the employee had only followed the code properly.

6) Sometimes there is disconnection between the company's code of ethics and the company's actual practices. Thus, whether or not such conduct is explicitly sanctioned by management, at worst, this makes the policy duplicitous, and, at best, it is merely a marketing tool.

7) Jones and Parker write, "Most of what we read under the name business ethics is either sentimental common sense, or a set of excuses for being unpleasant." Many manuals are procedural form filling exercises unconcerned about the real ethical dilemmas. For instance, US Department of Commerce ethics program treats business ethics as a set of instructions and procedures to be followed by 'ethics officers'., some others claim being ethical is just for the sake of being ethical. Business ethicists may trivialize the subject, offering standard answers that do not reflect the situation's complexity.

Thank You

Business Process Reengineering (BPR)

This material was collected from different sources

Business Processes

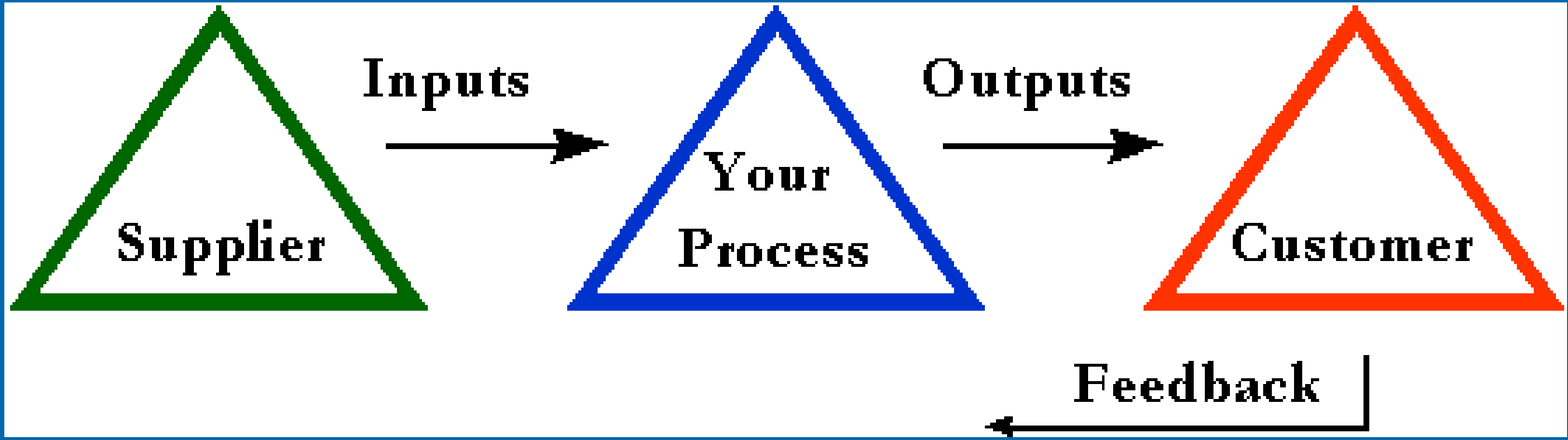
- ***Process :*** A specific ordering of work activities across time and space, with a beginning, an end, and clearly identified inputs and outputs: a structure for action.

- ***Business Process:*** A group of logically related tasks that use the firm's resources to provide customer-oriented results in support of the organization's objectives

Business Processes

- A *process* is a series of activities or steps used to transform input(s) into output(s).
- An input or output may exist or occur in the form of data, information, raw material, partially finished units, purchased parts, a product or service, or the environment.
- It is the steps used by an individual or a group to perform work or complete a task.
- It is sometimes referred to as a technique, method, or procedure.

Business Processes



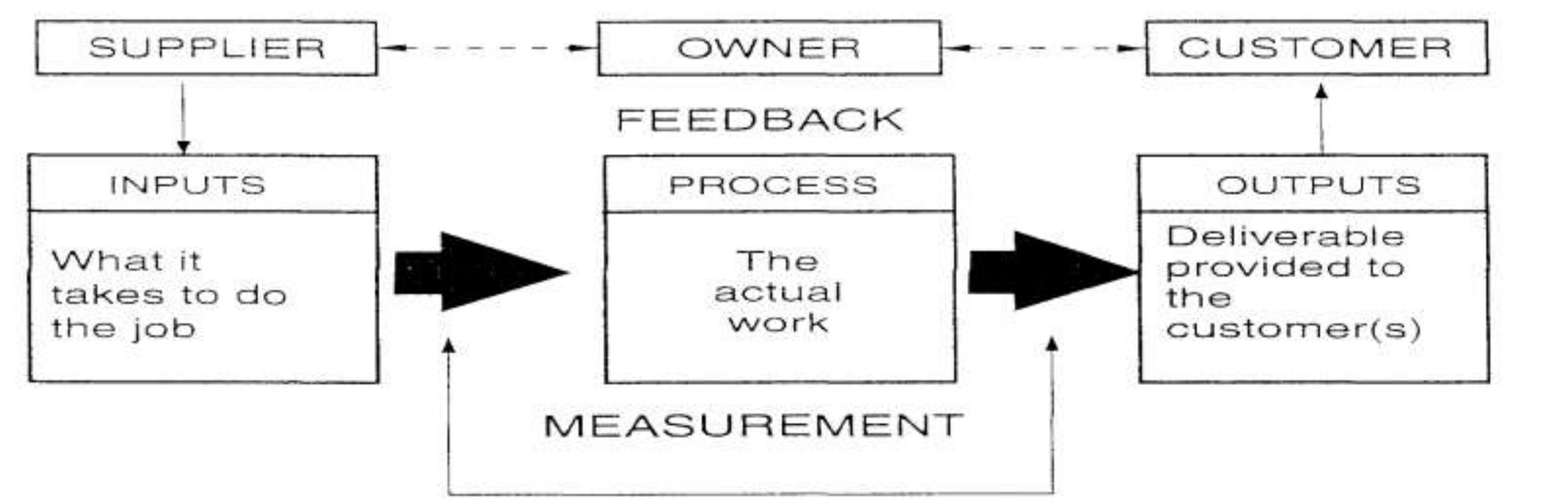
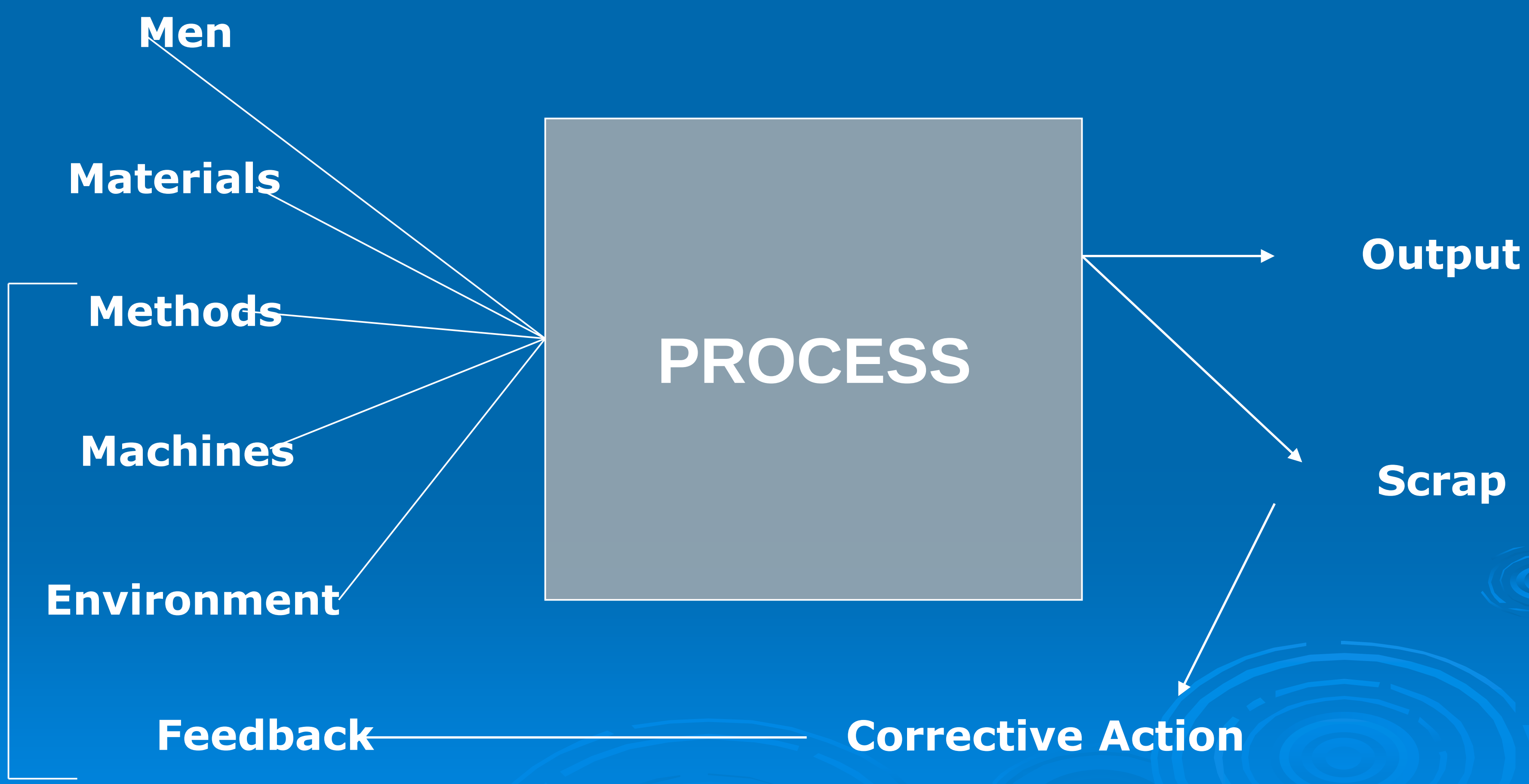


Figure 13.1 The process.

PROCESS APPROACH TO MANAGEMENT



The Key Roles of Process Management

Effective Process Management requires 4 Key Roles:

- **“*The Process Sponsor*” is the person who provides direction and ensures that there is sufficient resource available to improve process. He or She is normally at a senior level in an organization.**

- **“*The Process Owner*” usually sits outside the process, and is directly and personally accountable for the end-to-end process. He or She is the final arbiter for the process and should drive any process improvement initiatives and activities.**

- **“*The Process Manager*” works inside the process and is responsible for discrete parts of it. He or She ensures day-to-day production performance, directly manages process workers and suppliers relationships and provides the process owner with metrics, reports and improvement ideas.**

- **“*The Process Worker*” works inside the process with responsibility for specific delivery to agreed standards. He or She may manage small teams of less experienced workers and provide the process manager with metrics, reports and improvement ideas.**

Types of Processes

There are three types of processes, as follows:

1. ***Management process*** — This entails the method(s) used by management in executing its management functions. Three key functional areas used by management are planning, organizing, and controlling.

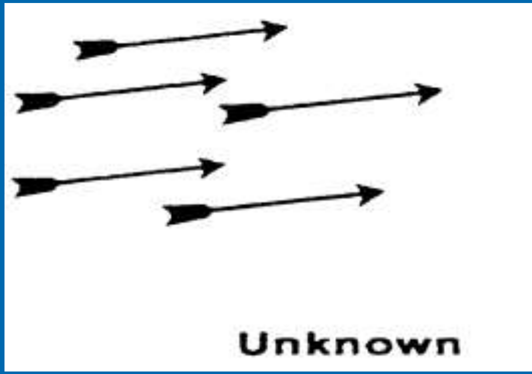
2. ***Functional process*** — A functional process consists of the methods used to achieve functional objectives within a group or by an individual.

Types of Processes

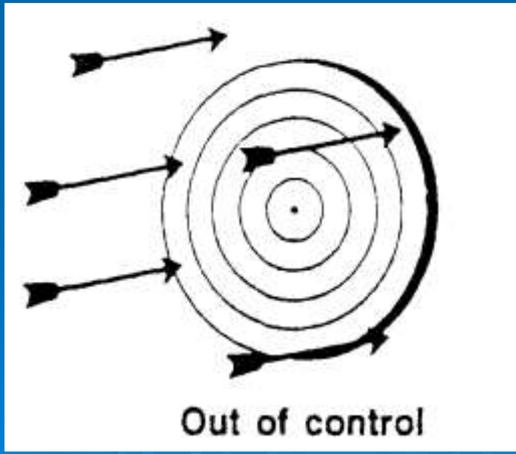
3. ***Cross -functional process*** — This includes the method(s) used to achieve objectives that require participation or input from more than one group or individual. For example, the problem of an adverse drug reaction in a hospital may require the involvement of the pharmacist, the ordering physician, a registered nurse, and a unit secretary. Each group or individual controls one or more of the sub-processes affecting the problem.

Process States

- State 1 is the unknown state. In this state, the process performance has not been measured. There is no target.



- State 2 shows the process out of control. There is a target, but the performance cannot be predicted. In this state, the process performance is an element of chance.



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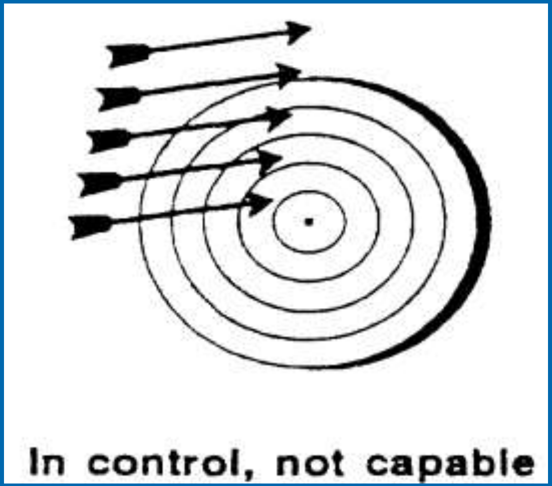
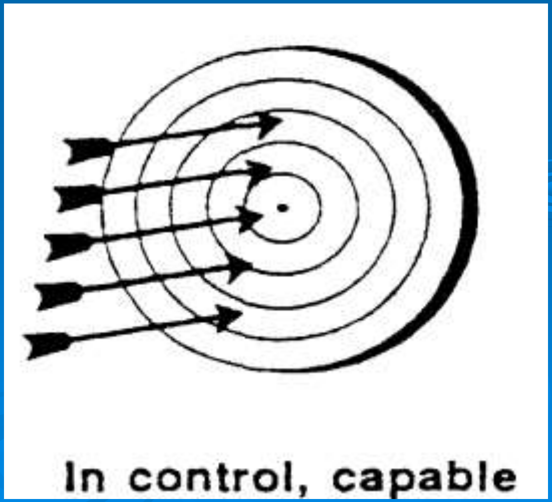
- State 3 displays a process in control, but the process is not capable. Performance can be predicted, but it will not always hit the target. In this state, the process is not within limits.



- State 4 is a process in control and capable. Process performance can be predicted within the target.



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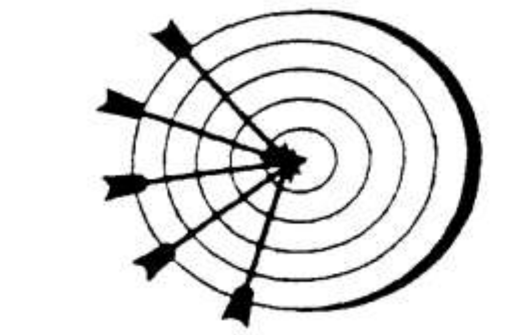
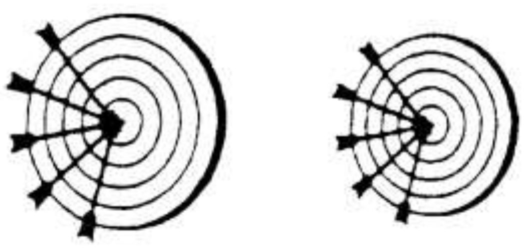
- State 5 is process improvement. In this state, the process is improved to reduce variability to the target value. The aim is to consistently hit the bull's-eye or center of the target.



Process improvement

- State 6 is continuous improvement. In this state, the process is constantly improved to its best possible performance. The target keeps getting smaller and smaller while still continuously hitting the bull's-eye.



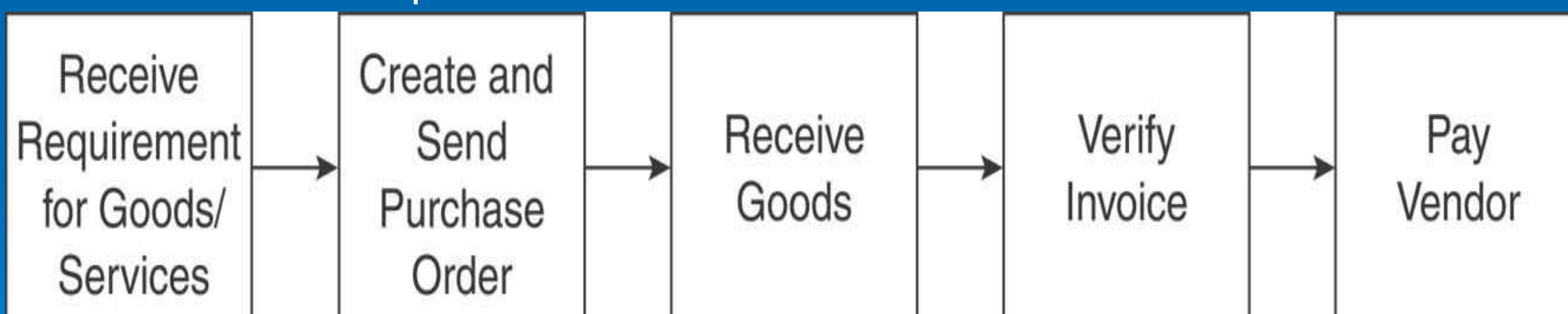
Continuous improvement

Process Measurement

- All process performance can be measured through process indicators. The major process indicators focus on quality, cost, quantity, time, accuracy, reliability, flexibility, effectiveness, efficiency, and customer satisfaction.

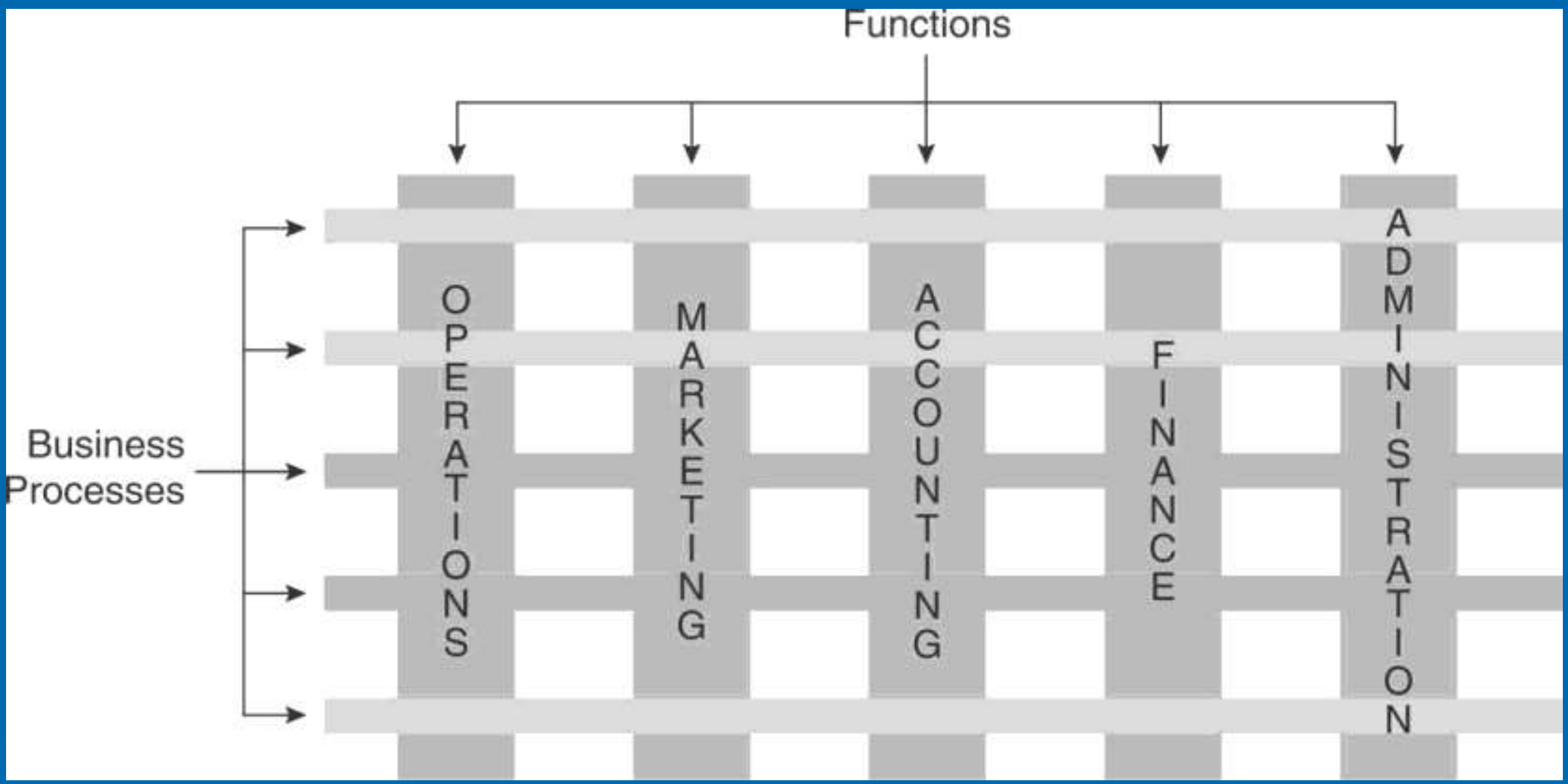
- Each organization and process owner must determine their own process performance indicators.

Process Perspective



Process Perspective

- Keeps the big picture in view.
- Focuses on work being done to create optimal value for the business.
- Advantages:
  - Helps avoid or reduce duplicate work.
  - Facilitate cross-functional communication.
  - Optimize business processes.
- When managers gain the process perspective they begin to lead their organizations to change.
- Question status quo (current situation).
- Don’t accept “because we have always done it that way” as an answer to why business is done in a particular way.
- Allows managers to analyze business’s processes in light of larger goals.



Cross-functional nature of business processes

Business Process Reengineering (BPR)

Definition:

- Fundamental Rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality service, job satisfaction, and speed.
- BPR takes a process view of organization, and focuses on how work is accomplished.
- BPR is a methodological process that uses information technology to radically overhaul business process and thereby attain major business goals.
- BPR is the reconfiguration of business using IT as a central lever.
- Overhauling the business processes and organization structure that limit the competitiveness, effectiveness, and efficiency of the organization.

Business Process Reengineering (BPR)

Critical issues that define BPR:

- BPR consists of radical or at least significant change.
- BPR focuses on process not on department or functional areas.
- BPR tries to achieve major goals or dramatic performance improvement.
- IT is a critical enabler of BPR.
- Organizational changes are critical to BPR.

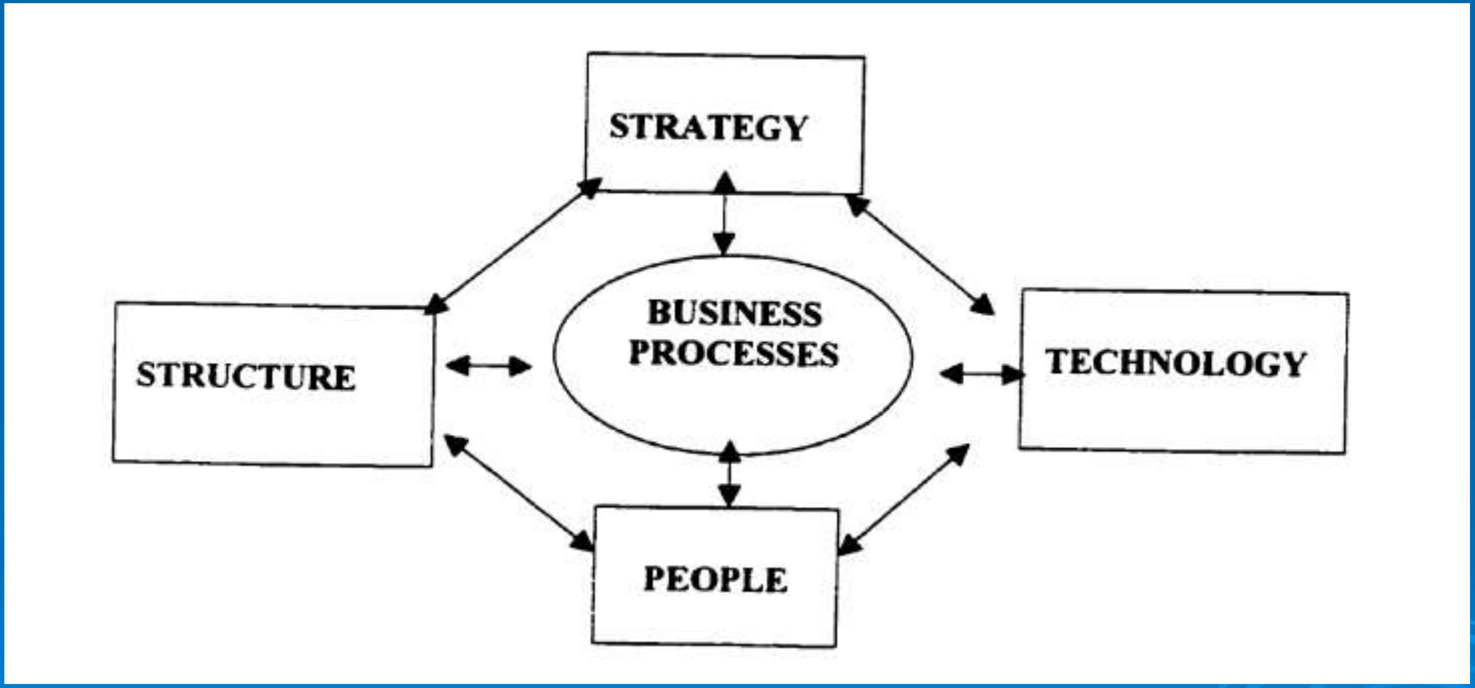
Business Process Reengineering (BPR)

Characteristics of BPR:

Process Orientation	An organization should be viewed and organized as a portfolio of processes, not as a functional hierarchy.
Radical and discontinuous Improvement	Look only for dramatic returns and don't use the present as a basis for the redesigned solution.
Customer Orientation	Process activities are evaluated in terms of the value they create to the external/internal customer.
Empowerment	Shift authority and accountability to the front line worker.
Top Down	Top management initiates, controls, and monitors the exercise, due to the broad cross-functional scope.
IT enabled	Creative use of IT to enable process innovation, not just automate current activities.

Business Process Reengineering (BPR)

Dimensions of BPR:



BPR Implementation

BPR is therefore an <u>approach</u> and <u>takes the form of a project</u>, typically having <u>seven phases</u>:-

1. **Discover**
2. **Analyze and Document the redesigned Process(es)**
3. **Involve and rebuild**
4. **Reorganize and re-train**
5. **Establish the redesigned process(es) & redesign the work teams.**
6. **Measure Performance**
7. **Continuous redesign and improvement**

1. <u>Discover Phase</u>:-

- A <u>problem</u> or <u>unacceptable outcome</u> is identified and <u>desired outcome determined</u>. This includes:-

  a) Business Needs
  b) Processes Involved
  c) And Effectiveness of Monitoring & measurement Plans.

2. Analyze the Existing Process(es) and Document the Redesigned Process(es):-

- Analyze the current business process(es) & determine new & re-designed Process(es).
- Establish Process Flow Charting for Redesigned Process(es).
- Measure, Test, Analyze, and Finalize the Redesigned Process(es).
- Use Benchmarking Information, where required.

3. <u>Involve and Rebuild Phase</u>:-
   - Redesign & Rebuild the Work Teams.
   - The teams must rethink and fully understand the redesigned or new Process(es).
   - Everybody should be involved for the agreed Action Plan.
4. <u>Reorganize and Retrain</u>:-
   - For New Technology and New or Redesigned Processes.
   - BPR may involve <u>Substantial Investment in Training</u> and <u>Top Management's Commitment / Support</u>.

5. Establish the Re-designed Process(es) With Re-designed Work Teams:-

- It is critical for the success of BPR and depends on the scope of the Business Process(es). It therefore includes:-
  - Establish & Implement the Re-designed process(es) with Re-designed work teams (where required)
  - Overall Process Sponsor or Champion (Effective Managerial Skills)
  - Process Owner (Resolver of Process Bottlenecks)
  - Team Leader or Process Manager (Motivator & Resource Provider)
  - Facilitator (Coordinator & Support Services)
  - Team Members (Knowledge, Skills, Attitudes)

Business Process Reengineering (BPR)

Measurement of BPR outcomes:

- There are no consistent reliable measures available
- BPR could be measured during the evaluation stage in terms of:
  - Process performance: cycle time, cost, customer satisfaction.
  - IT performance: downtime, system use.
  - Productivity indices: orders processed per hour.

Business Process Reengineering (BPR)

Indicators for success:

- Work units change from functional departments to process teams.
- Task-oriented jobs become multi-dimensional, process oriented roles.
- Employees are empowered with authority and responsibility for a process and its outcome.
- Comprehensive employee education replaces skill training.
- Organizational culture shifts from protective to productive.

Business Process Reengineering (BPR)

- Results-oriented performance management and compensation systems are established.
- Managers become coaches rather than supervisors.
- Hierarchy flattens as a result of empowered process teams.
- Executives become leaders rather than scorekeepers.

Business Process Reengineering (BPR)

Addressing people issues:

- Intervention for overcoming organizational resistance and political pressure.
- Intervention for culture change and
- Dealing with the 'survivor syndrome' of the change receptionist.

Survivor syndrome appears after firing some employees when implementing BPR, other employees show decreased motivation and morale, guilt, anger, and skepticism.

Business Process Reengineering (BPR)

Challenges associated with BPR:

- Poor Leadership
- Poor or inconsistent communication
- Exclusion of current employees

Business Process Reengineering (BPR)

Information Technology and BPR:

- Practically, IT is a key enabler of process change.
- Successful reengineering efforts require a partnership between business and IT professionals.
- IT is accompanied by other organizational changes like structure, culture, and role.
- Information sharing across an organization.
- Great demand among employees to learn new processes.

Business Process Reengineering (BPR)

IT opportunities for process reengineering:

- **Automation:** eliminating human labor from a process.
- **Informational:** capturing process information for the purpose of understanding.
- **Tracking:** monitoring process status and objects.
- **Analytic:** improving analysis of information and decision making.
- **Geographical:** coordinating process across distances.
- **Integrative:** coordination between tasks and processes.

Business Process Reengineering (BPR)

Differences between traditional IT implementations and BPR:

Basis for comparison	Traditional IT Implementations	BPR implementations
Essence	Problem solving	Reinventing work
Approach	Incremental improvement	Radical change
Style	Analytical	Creative &innovative
Perspective	Micro perspective	Macro perspective
Goal	Enhancement	Paradigm-break
Change	Limited	Wholistic scope
Domain	Functional area	Entire business system

Business Process Reengineering (BPR)

Total Quality Management (TQM):

- It emphasizes the role of quality in meeting the needs of its customers.
- TQM stresses customer satisfaction , continuous improvement and to be the best in all functions.
- TQM focuses on incremental change and gradual improvement of processes.

Comparison between TQM & BPR

	TQM	BPR
Change	Incremental	Quantum leap
Focus	Current Practice	Start again
Frequency	Continuous	One shot
Participation	Bottom-up	Top-down
Risk & Rewards	Low & Moderate	High
Type of Change	Work design	Structure, culture roles
Role of IT	Incidental	Key enabler

Business Process Reengineering (BPR)

Reengineering Recommendations:

- BPR must be accompanied by strategic planning, which addresses leveraging IT as a competitive tool.
- Place the customer at the center of the reengineering effort -- concentrate on reengineering fragmented processes that lead to delays or other negative impacts on customer service.
- BPR must be "owned" throughout the organization, not driven by a group of outside consultants.
- Case teams must be comprised of both managers as well as those will actually do the work.

Business Process Reengineering (BPR)

- The IT group should be an integral part of the reengineering team from the start.
- BPR must be sponsored by top executives, who are not about to leave or retire.
- BPR projects must have a timetable, ideally between three to six months.
- BPR must not ignore corporate culture and must emphasize constant communication and feedback.

BPR is Not?

- BPR may sometimes be mistaken for the following five tools:

1. *Automation* is an automatic, as opposed to human, operation or control of a process, equipment or a system; or the techniques and equipment used to achieve this. Automation is most often applied to computer (or at least electronic) control of a manufacturing process.

2. *Downsizing* is the reduction of expenditures in order to become financial stable. Those expenditures could include but are not limited to: the total number of employees at a company, retirements, or spin-off companies.

BPR is Not?

3. *Outsourcing* involves paying another company to provide the services a company might otherwise have employed its own staff to perform. Outsourcing is readily seen in the software development sector.

4. *Continuous improvement* emphasizes small and measurable refinements to an organization's current processes and systems. Continuous improvements' origins were derived from total quality management (TQM) and Six Sigma.

Chapter 3

Environmental Forces

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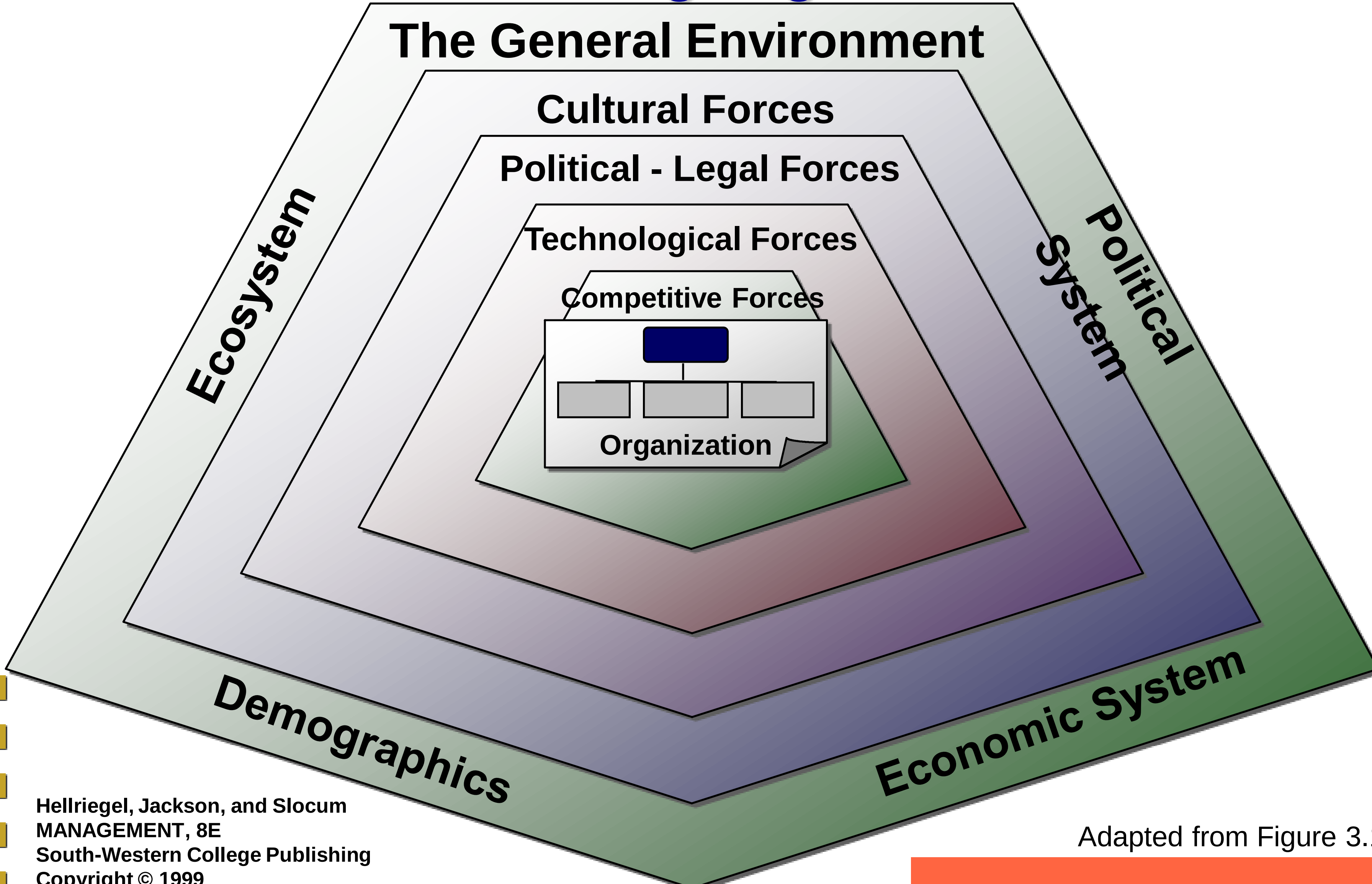
Environmental Forces

- Business Environment
- Task Environment
- Competitive Forces in the Task Environment
- Technological Forces
- Political and Legal Forces

The General Environment and Environmental Forces Affecting Organizations



Adapted from Figure 3.1

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The General Environment

- Sometimes called the macro-environment.
- Are external factors, such as inflation and demographics, that usually affect indirectly all or most organizations.

Factors in the General Environment

- Type of economic system and economic conditions
- Type of political system
- Condition of the ecosystem
- Demographics
- Cultural Background

Roles of Government in Business

- In the US, the government acts as a watchdog over business
- Provides direction in areas such as:
- antitrust,
- monetary policy,
- defense,
- human rights
- environmental matters

The Economic System

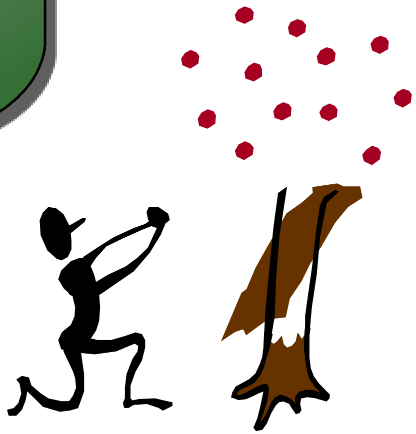
- The US has an economic system in which there are:
- privately controlled markets
- based on supply and demand
- free market competition
- private contracts
- profit incentives
- technological advancement

The Ecosystem

- There is a renewed commitment to the environment in the US
- 1981 - 4% wanted environmental improvements
- 1997 - 80% want improvements

Environmentally-Conscious Business Practices

- Cut back on environmentally unsafe operations
- Compensate for environmentally risky endeavors
- Avoid confrontation with state and federal pollution control agencies
- Comply early with government regulations
- Promote new manufacturing technologies
- Recycle wastes



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Demographics

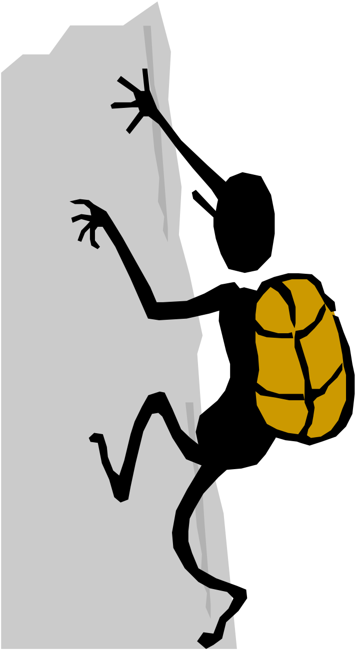
- Characteristics of a population such as age, race, gender, ethnic origin, and social class
- determine the characteristics of work groups, organizations, specific markets, or nations population.
- *Demographics* influence marketing, advertising, and human resources decisions.
- Such as the number of individuals the ages of 18 to 25
- They change all the time.

Cultural Forces

- Culture is the shared characteristics, values, and beliefs of a group that distinguishes them from another group
- Such as religion, language, and heritage

Hofstede's Framework

- Power distance
  - Degree to which influence/control are unequally distributed among individuals within a particular culture
    - salary differentiation from CEO to front line employees
- Uncertainty avoidance
  - Degree to which members of a society attempt to avoid ambiguity, riskiness, and indefiniteness of future
- Individualism
  - Extent to which society expects people to take care of themselves and their immediate families
  - And/or the degree to which individuals believe they are masters of their own destiny



Hofstede's Framework (contd.)

- Collectivism
  - Measures tendency of group members to focus on the common welfare and feel loyalty toward one another
- Masculinity
  - Degree to which acquisition of money and things is valued and high quality of life for others is not

- Confucian dynamism
  - Stability of society is based on unequal relationships
  - Family is the prototype of all organizations
  - People should treat others as they would like to be treated

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Basic Types of Task Environments

	STABLE	CHANGING
SIMPLE	**Factors in environment are** ■ few ■ quite similar to each other ■ basically the same over time **Example: Soft-drink distributors**	**Factors in environment are** ■ few ■ somewhat similar to each other ■ continually changing **Example: Fast-food outlets**
COMPLEX	**Factors in environment are** ■ numerous ■ not similar to each other ■ basically the same over time **Example: Basic food production firms**	**Factors in environment are** ■ numerous ■ not similar to each other ■ continually changing **Example: Computer firms**

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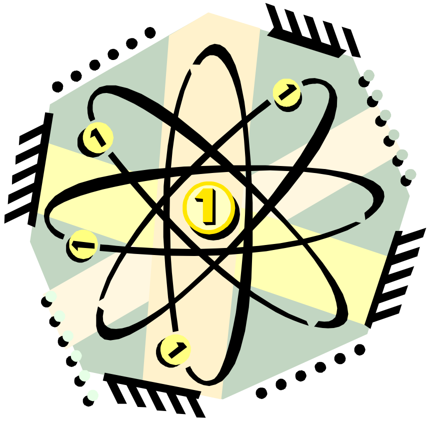
Adapted from Figure 3.3

Environmental Uncertainty

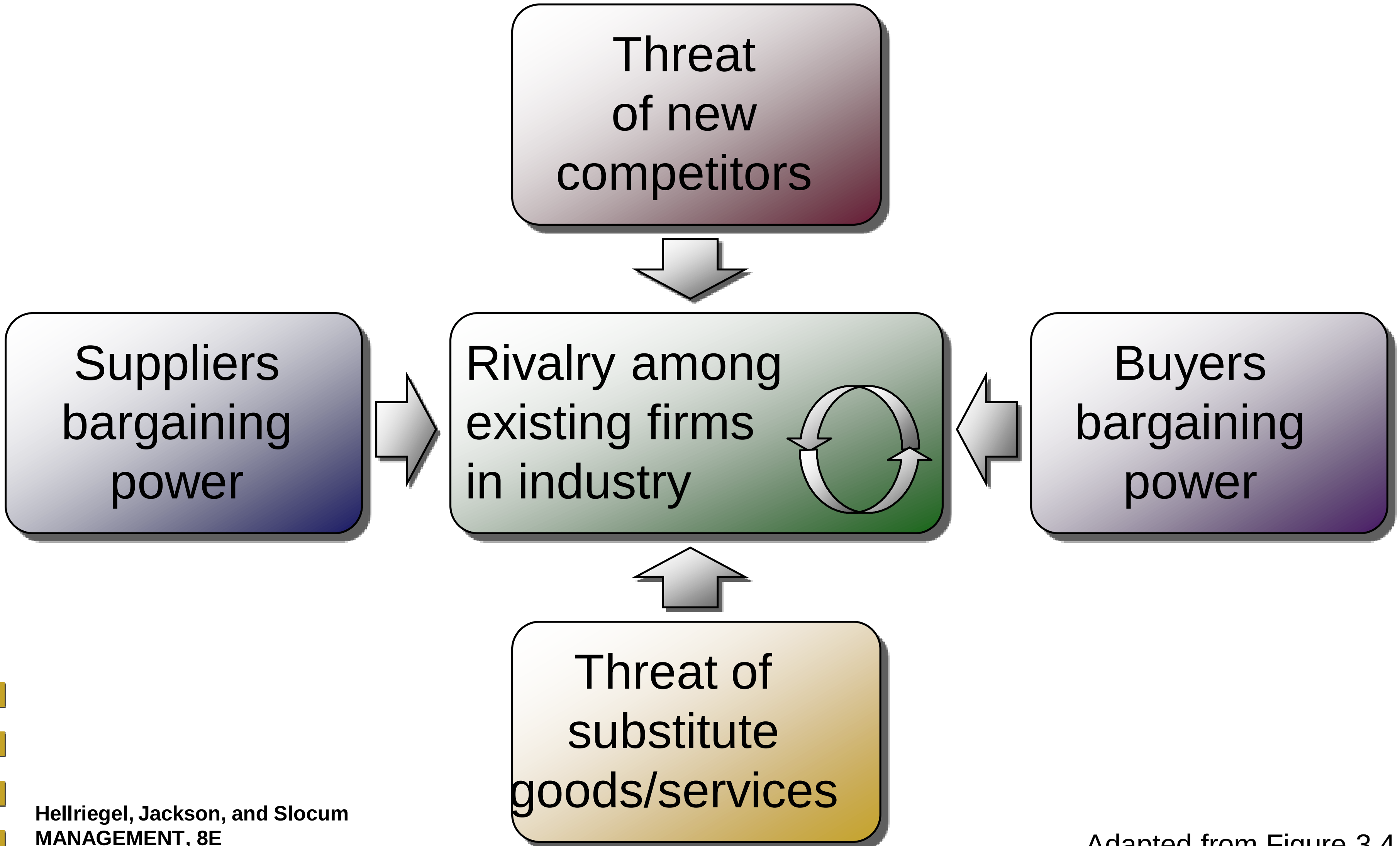
- Ambiguity or unpredictability of certain factors external to an organization
  - governmental regulations
  - competition
  - stability of inputs
  - demand characteristics
    - e.g. Customer bargaining power

Turbulent Environment

- Complex, constantly changing
- Both ambiguous and unpredictable



Competitive Forces in the Task Environment



Adapted from Figure 3.4

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Competitors

- Importance and Effect of Competitors
  - competitors are an important day-to-day environmental force facing organizations
  - rivalry among competitors leads to
    - price cutting
    - advertising promotions
    - enhanced customer service or warranties
    - improvements in product or service quality

New Entrants

- Barriers to Entry:
- economies of scale
  - decrease in per unit costs as volume of goods/services produced increases
- product differentiation
  - uniqueness in quality, price, design, brand image, or customer service that gives a product an edge over the competition

New Entrants cont.

- capital requirements
  - dollars needed to finance equipment supplies, advertising, R&D, and the like necessary to start
- government regulation
  - may bar or severely restrict potential new entrants to an industry

Substitute Goods and Services

- Goods/Services
  - that can easily replace the firm’s goods/services
  - I.e. Starbucks introduced a new drink called Frappuccino. It is a cold drink that can substitute for the more traditional hot coffee drink

Customers

- Potential Effects of Customers
  - they may drive down prices
  - push for more or higher-quality products
  - increase competition among sellers by playing one against each other

Integration

- Purchasing or developing related business units
  - thought of as facing the customer
- Forward Integration-purchasing your customer
  - Why?
- Backward Integration-purchasing your supplier
  - Why?
- Horizontal Integration-purchasing competitors
  - Why?

Customers cont...

- Exhibit Bargaining Power to the Extent that:
  - they purchase a large volume relative to the supplier’s total sales
  - the product/service represents a significant expenditure by the customer
  - they pose a realistic threat of backward integration, for example: the purchase of one or more of its suppliers
  - they have readily available alternatives for the same services/products

Suppliers

- Bargaining Power of Suppliers
  - often controls how much they can :
    - raise prices above their costs
    - reduce the quality of goods and services
  - is increased by patents and copyrights
  - is increased by supplier-customer alliances
    - which are advocated by total quality programs

Impact of Technology

- What is technology?
  - knowledge, tools, techniques, and actions
    - used to transform material , information, and other inputs into finished goods and services
  - plays pivotal role in creating and changing an organization’s task environment

Impact of Technology cont...

- Role in Strategy :
- creates strategic options not feasible with older technologies
  - approaching those of traditional large-scale manufacturing facilities
- marketing over the internet
- online, real-time financial management systems
  - can determine profit and loss on a a daily basis
- improved access to services (e.g. Banking)

Impact Bonds focus on improving impact

Impact bonds incentivise the achievement of impact through linking funding to results and provide the corresponding implementation flexibility required to achieve impact:

TRADITIONAL AID MODEL

Donor subject to public accountability, but program implemented by third party

Donor often focuses on financing inputs and processes to control what and how impact is achieved

Program may achieve lower than expected impact as cannot adapt to local circumstances and real-time data

IMPACT BOND MODEL

Government / Donor pays for impact achieved, rather than controlling inputs and processes

Up-front capital from investors to service providers and provision of real-time performance management

Impact achieved improves as program is adaptive, client-centred and evidence-based

Impact bonds build on best practice

Social Impact Bonds for key and vulnerable populations intend to expand on existing proven approaches, while ensuring that the model upholds human rights of these populations:

This can be achieved through:

- *Clear Boundaries:* A programme framework that sets clear boundaries for goals and methods
- *Outcome selection:* Careful selection of outputs to avoid incentives for undesirable data collection methods or pressures
- *Intervention analysis:* Explicit criteria for what interventions and data collection methods are permissible, and which are not
- *Selected Investors:* Investors restricted to those with a strong commitment to social goals and human rights

Innovative financing mechanisms such as social impact bonds go hand-in-hand with government funding for key populations, and should supplement their efforts in being more effective.

The ambition is that impact bonds will pave the way for larger-scale – and more cost-effective and sustainable – Government implementation of proven interventions.

Key characteristics of impact Bonds

Impact Bonds aim to improve the efficiency and effectiveness of development programmes through shifting payments - and thus accountability - to outcomes instead of inputs. The focus on outcomes allows and encourages local adaptation according to the specific and changing needs of service users.

Incentives for adaptive implementation

- Linking investor returns to desired outputs and outcomes creates a strong incentive for adaptive implementation of programmes to achieve better services for beneficiaries

Enhances transparency and accountability

- Investors are only compensated when contract outcomes and outputs have been independently verified

Outcomes funder only pays for success

- As with other Results-Based Aid, outcomes funders (government / donors) only pay for if agreed outcomes are met

Provide access to upfront funding

- Upfront funding provides working capital to service providers and risk is transferred to private investors

Objectives and roles of key parties

	Objectives	Role	Examples
Government	• Define outcomes and intervention objectives	• Define objectives • Can be outcomes funder and/or service provider	• Central and Regional governments
Outcomes Funder	• Only pay for success • Shift implementation risk to investors	• Define precise outcomes • Pay for verified outcomes	• Governments, Donor agencies, CSR funds, health trust funds
Investors	• Drive results through innovation and risk • Generate a social and financial return	• Supply up-front capital • Provide implementation framework	• Impact investors, high net worths, charitable foundations, companies
Service Providers	• Implement and potentially scale services with investor working capital	• Define objectives • Deliver services within adaptive model • Collect real-time data on service delivery	• NGOs, public and private sector providers
Service users	• Impact Bond beneficiaries	• Define objectives • Provide feedback to service providers and Impact Bond Manager	• People in need of health services, food security, sustainable livelihoods

Principles for a successful Impact Bond

For an Impact Bond to be successful it must:

- **Add value:** Potential exists to improve outcomes through transfer of risks to investors
- **Be feasible:** Improvement in outcomes measurable and stakeholder buy-in

	PRINCIPLES	RATIONALE
Add value	**Need for outcomes focus**	• Demonstrated need for increased focus on outcomes in target geography and coordination of key stakeholders to achieve outcomes
	Promising interventions	• Focus on expanding intervention with some evidence-base to ensure attractiveness to investors, but also uncertainties to justify risk transfer
	Service providers require working capital	• Service providers do not have sufficient upfront funding to pay for interventions or cannot bear the implementation risk alone
Feasibility	**Good potential for attribution of outcomes**	• Target population and outcome metrics can be clearly defined and agreed upon • Data for outcome metrics and benchmark can be collected in a reliable and cost-effective way and used to disaggregate the impact of the interventions
	Priority for donors and partner governments	• Potential donor agency and partner governments have interest in payment-by-results approaches and regard target outcomes as high priority
	Viable investment proposition	• Issue area / geography a priority for potential investors • Reasonable level of evidence around effective intervention approaches

Impact development involves three main phases

PHASE 1 High level scoping → PHASE II Detailed design → PHASE III Capital Raise → SIB IMPLEMENTATION

Phase I: High level scoping and stakeholder engagement (typically: 6-8 weeks)

- Stakeholder engagement e.g. impact bond approach tested with service beneficiaries and providers, government and other key stakeholders for suitability to the issue area and country context
- Feasibility analysis e.g. early exploration of the ability of government / donors to fund outcomes, contracting environment, capacity of potential partners to implement services via an impact bond and potential to measure and track outcomes

Phase II: Detailed design and securing of funding for outcomes (typically: 6 months)

- Detailed impact bond design work conducted in partnership with key stakeholders – focused around:
  - Outputs and outcomes metrics, measurement and verification
  - Intervention model i.e. service design
  - Outcomes funding, contracting and governance
  - Data collection and performance management
  - Budget, operational and financial modelling
  - Investor soft marketing

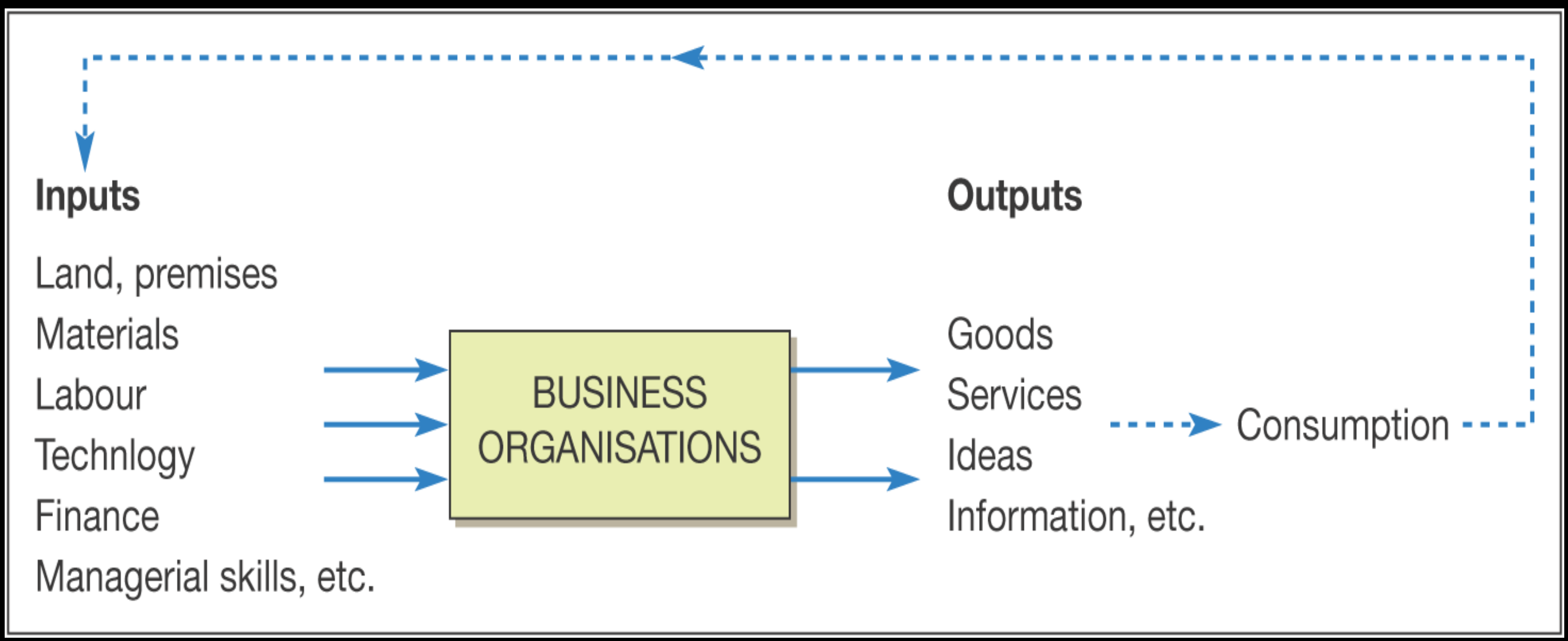
Phase III: Formal investor marketing, capital raise and service mobilisation (typically: 3-6 months)

- Once commitment to fund outcomes has been agreed with government / donors, funding is raised from socially motivated private sector investors to fund interventions under an impact bond structure – if and only if outcomes are successfully verified, outcomes payments from government / donors are triggered to repay investors their capital plus a return linked to the level of success and the level of risk taken

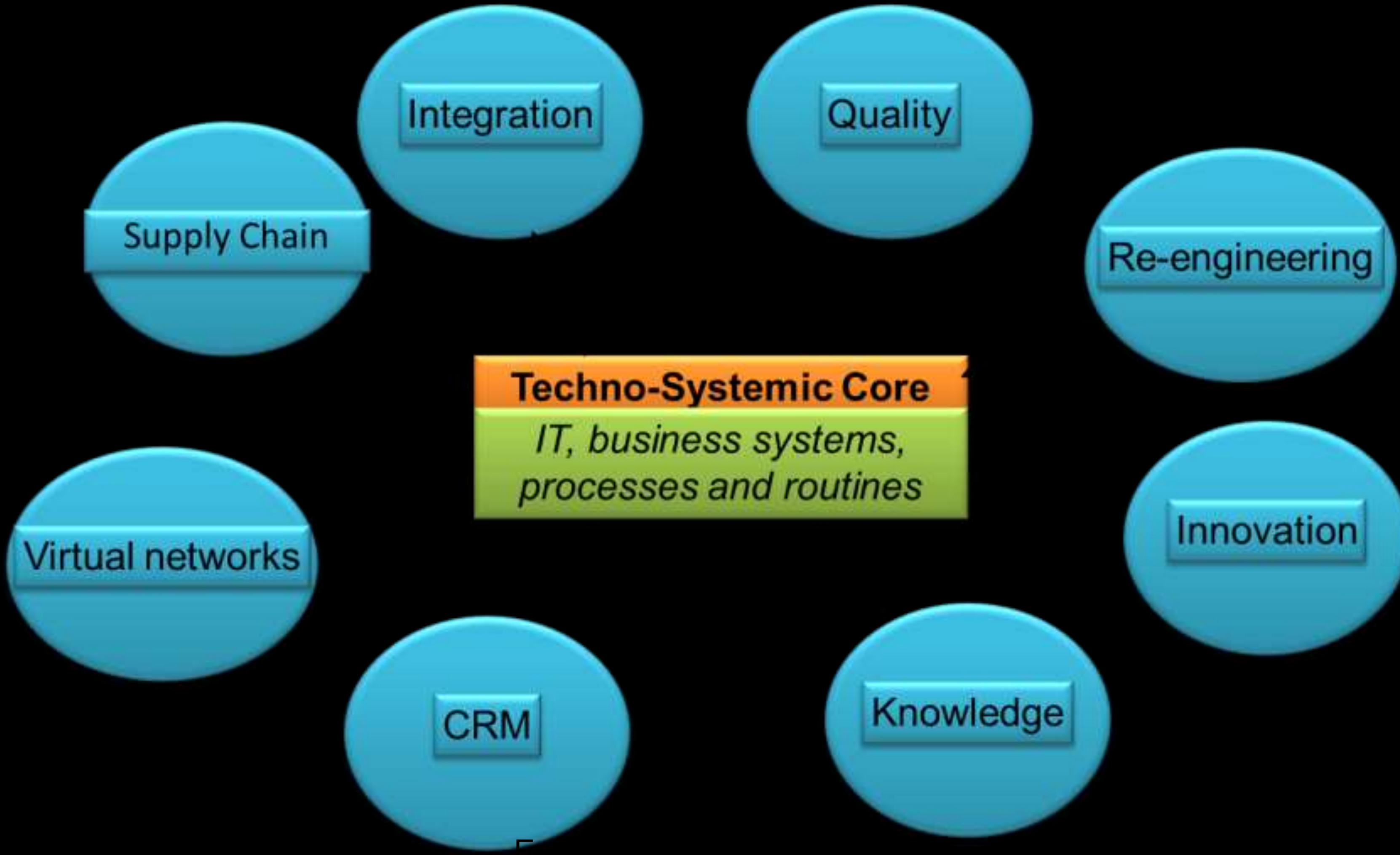
Thanks for listening!!

Key Concepts

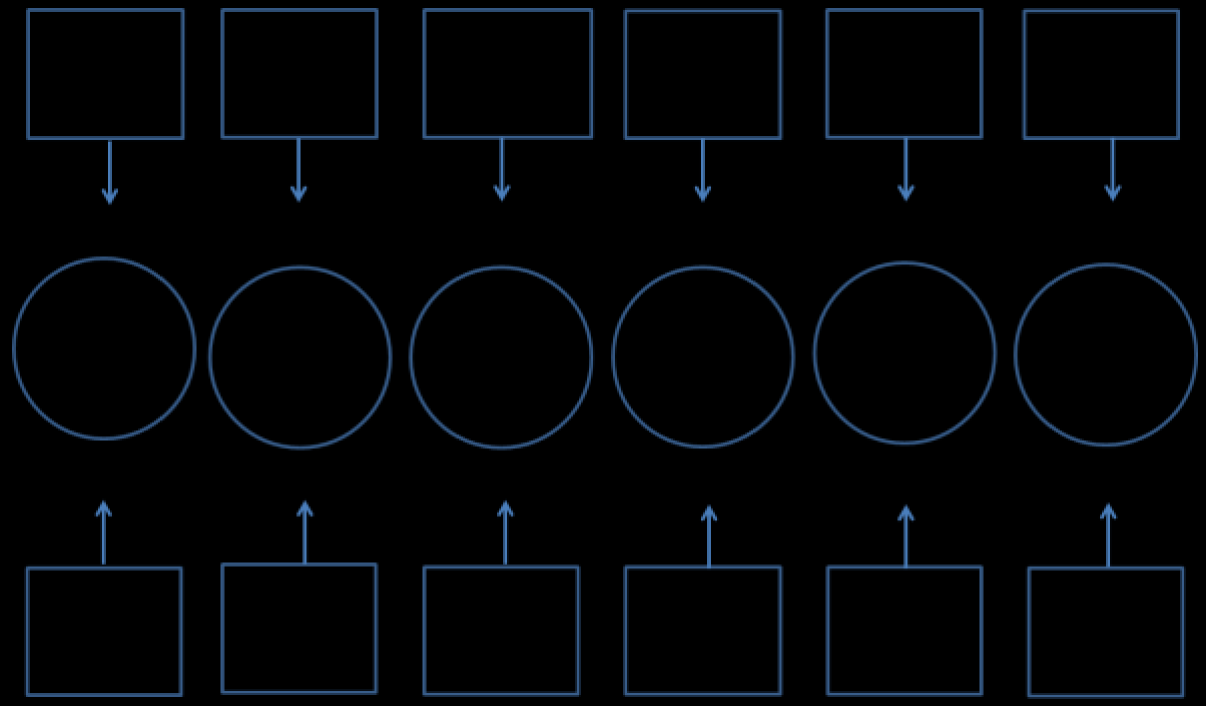
The Business Organisation as a Transformation System

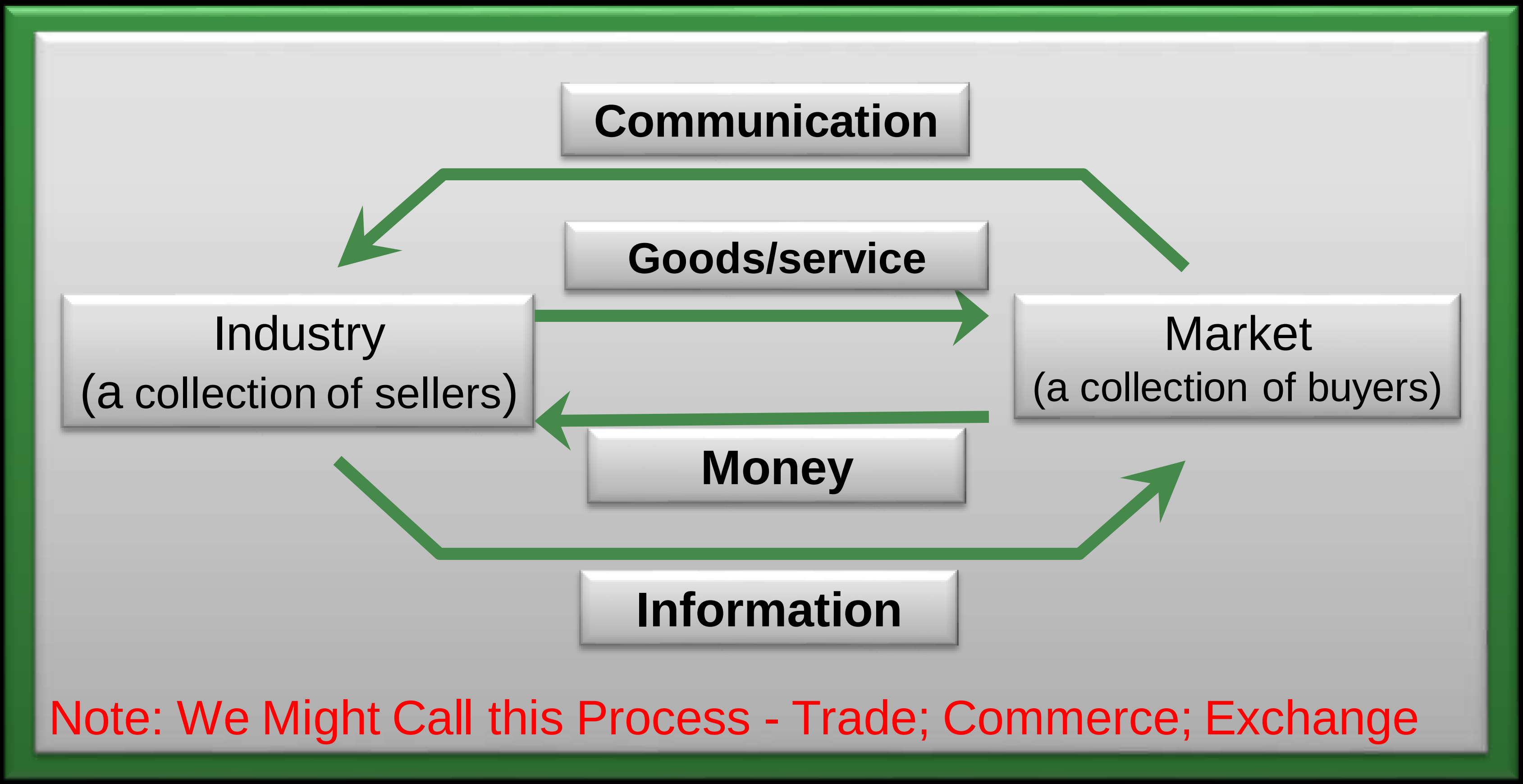


See; Worthington and Britton, 2009.


Integration
Quality
Supply Chain
Re-engineering
Techno-Systemic Core
IT, business systems, processes and routines
Virtual networks
Innovation
CRM
Knowledge


Flexibility
Leadership
Re-structuring
Governance
Socio-Systemic Core
Structure, Culture and Practices
Chaos & Complexity
Learning
Empowerment & Commitment
Communities of Practice



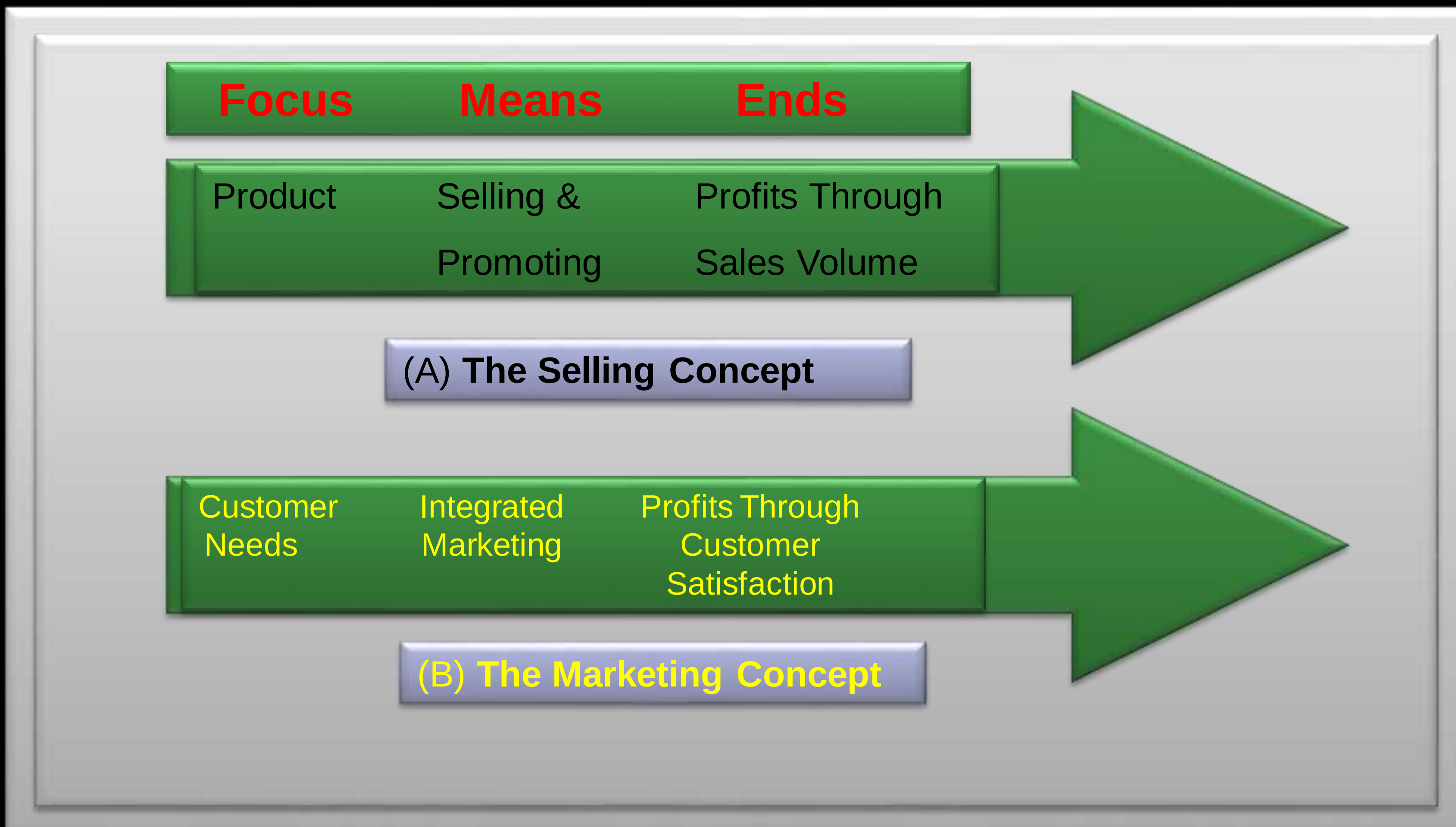


(See; Kotler, 2007)

Introduction to Business

- Note Down Your Answers!!

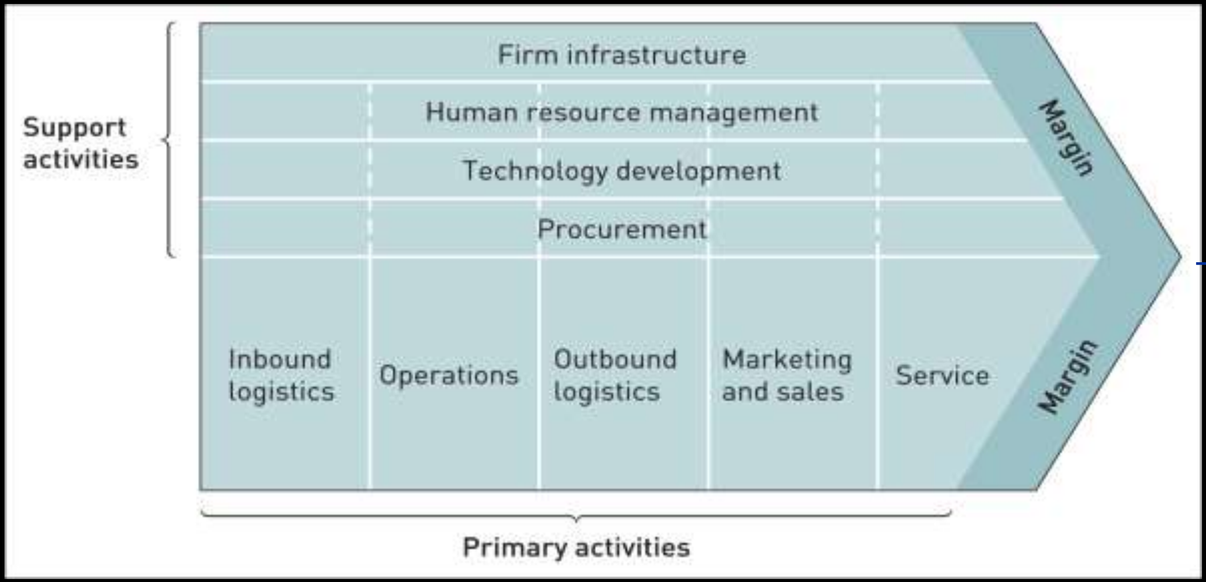
Key Concepts



See; Kotler: 2000

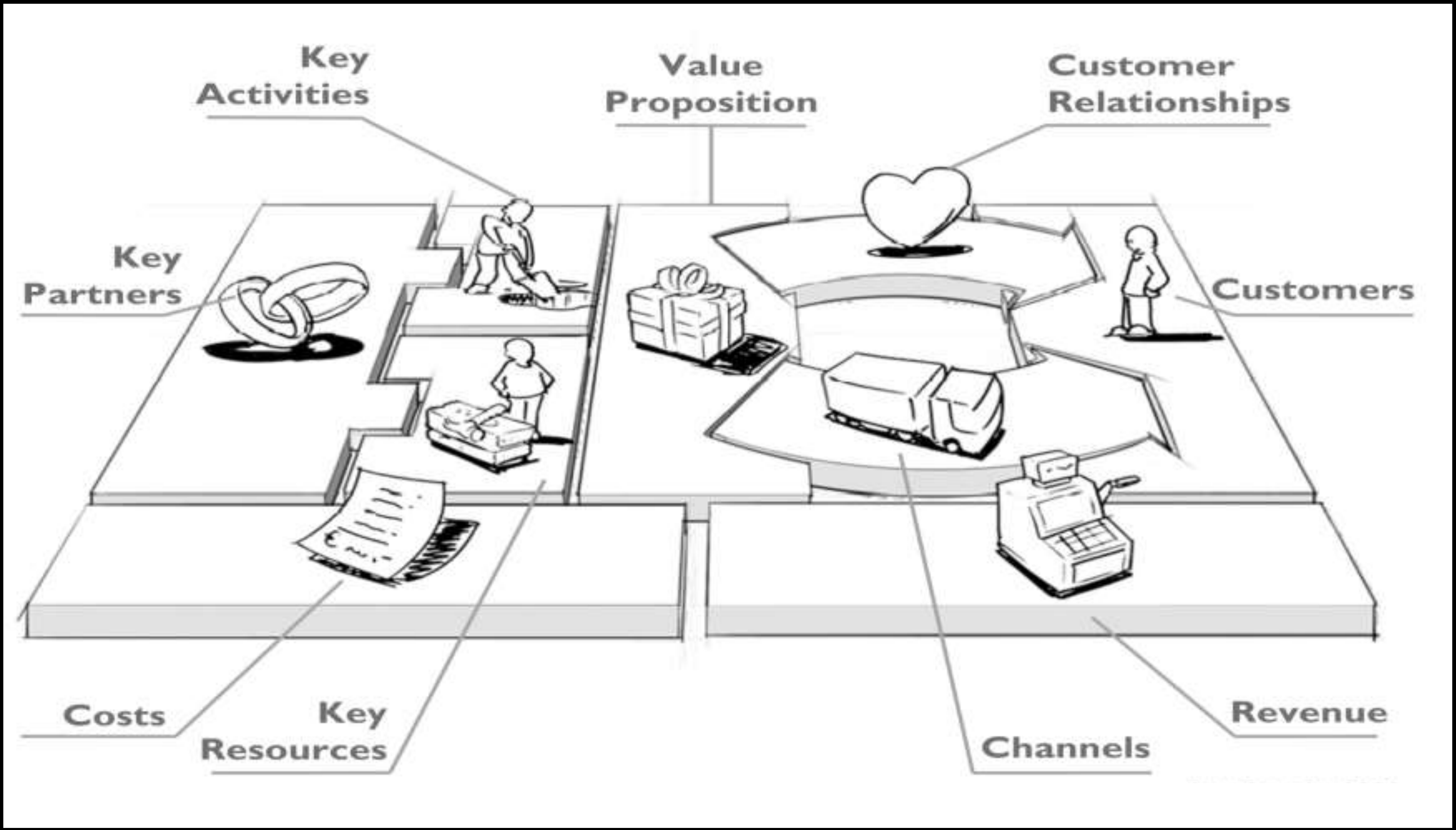
?

The Value Chain within an Organisation



Value Proposition Offered to Customers

See; Porter, 1985

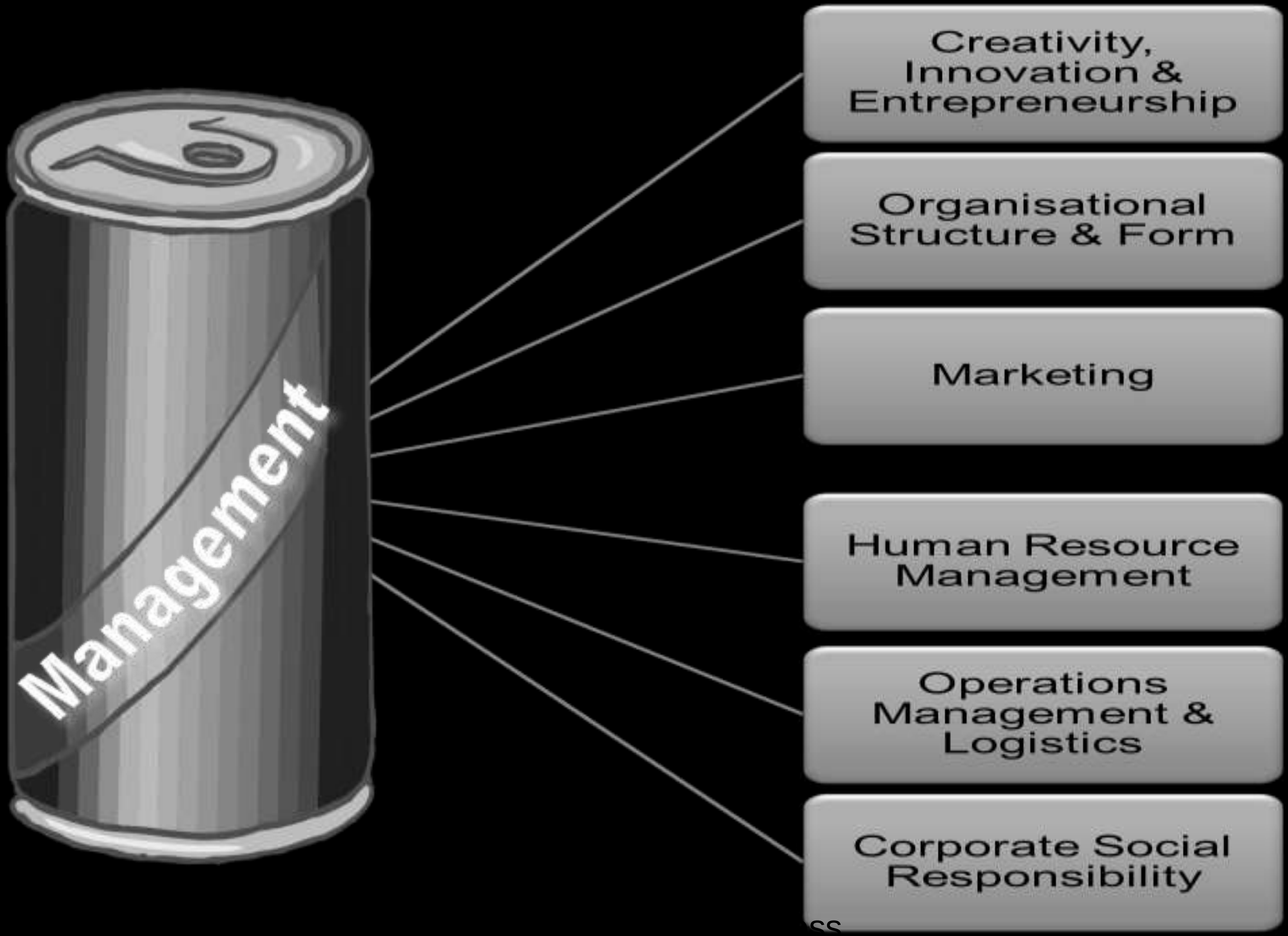


Source: Osterwalder, A., and Pigneur, Y,. (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, London: Wiley.

GMS

Cost	Innovation	Reliability	Relationships	Channels	Brand
1. Premium	1. Original	1. Excellent	1. Comprehensive	1. Restricted	1. Prestigious
2. Premium/ Competitive	2. Original/ Customized	2. Excellent/ Average	2. Comprehensive/ Standard	2. Restricted/ Selective	2. Prestigious/ Respected
3. Competitive	3. Customized	3. Average	3. Standard	3. Selective	3. Respected
4. Competitive/ Leader	4. Customized/ Basic	4. Average/ Acceptable	4. Standard/ Minimal	4. Selective/ Universal	4. Respected/ Functional
5. Leader	5. Basic	5. Acceptable	5. Minimal	5. Universal	5. Functional

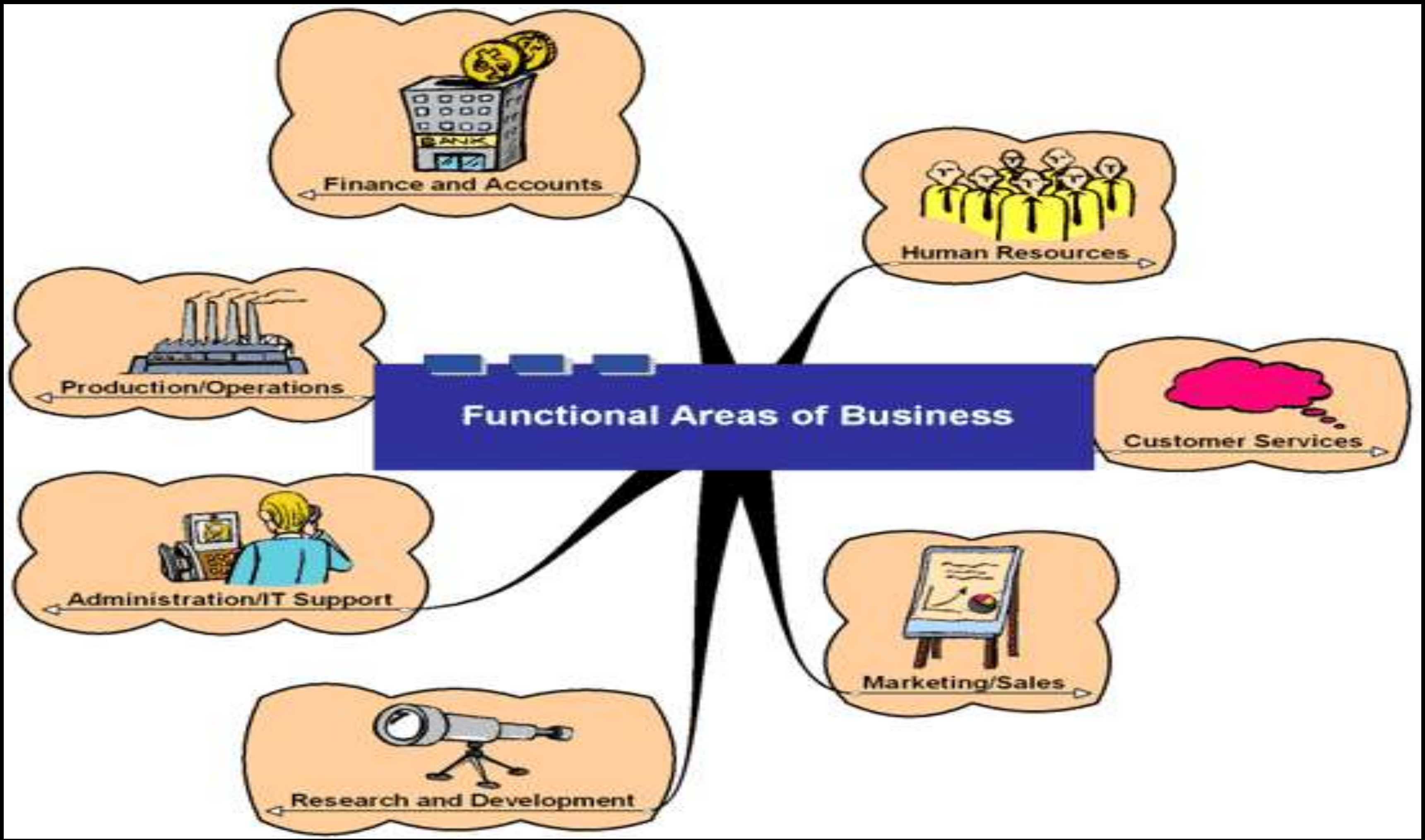
VISION FOR THE FUTURE

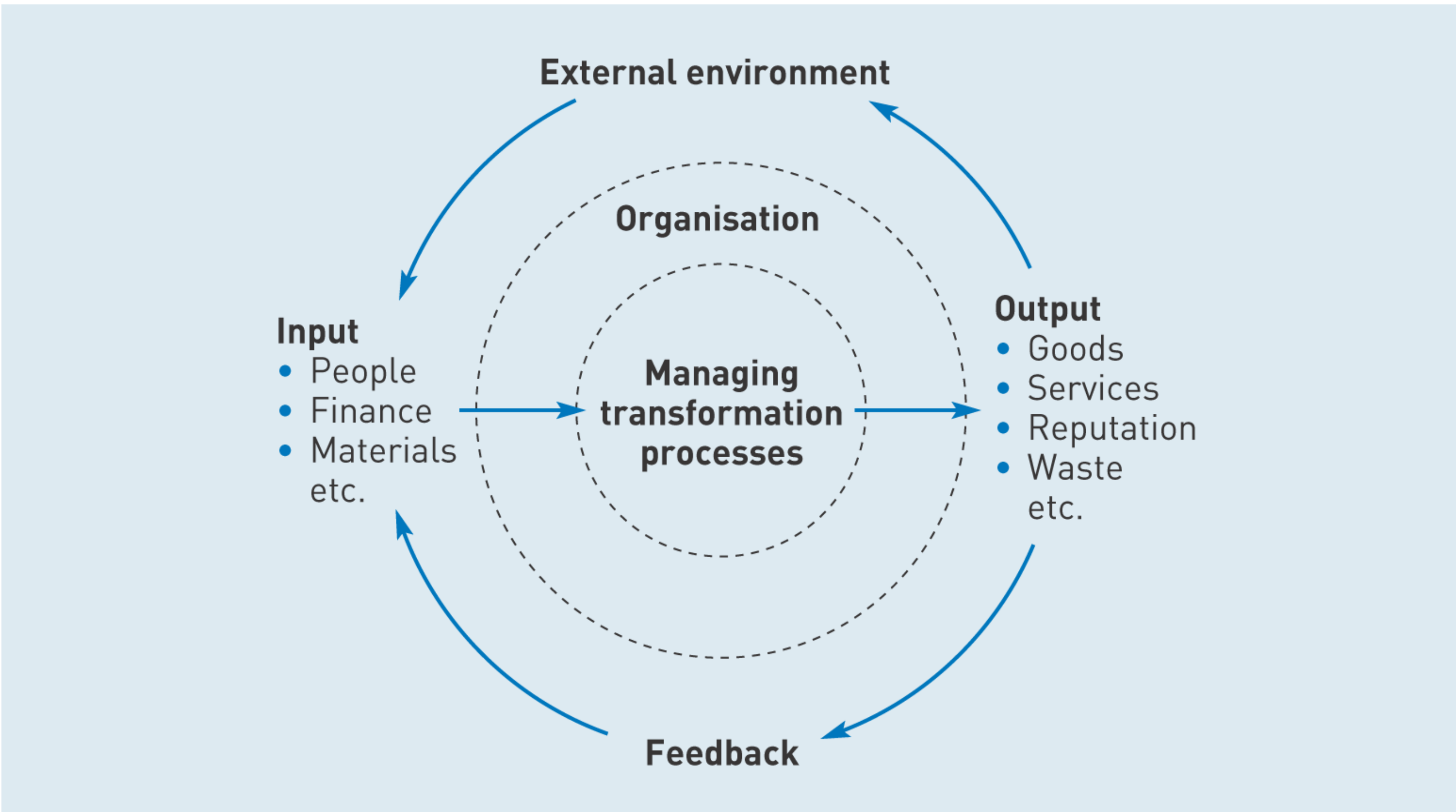

Management
Creativity, Innovation & Entrepreneurship
Organisational Structure & Form
Marketing
Human Resource Management
Operations Management & Logistics
Corporate Social Responsibility

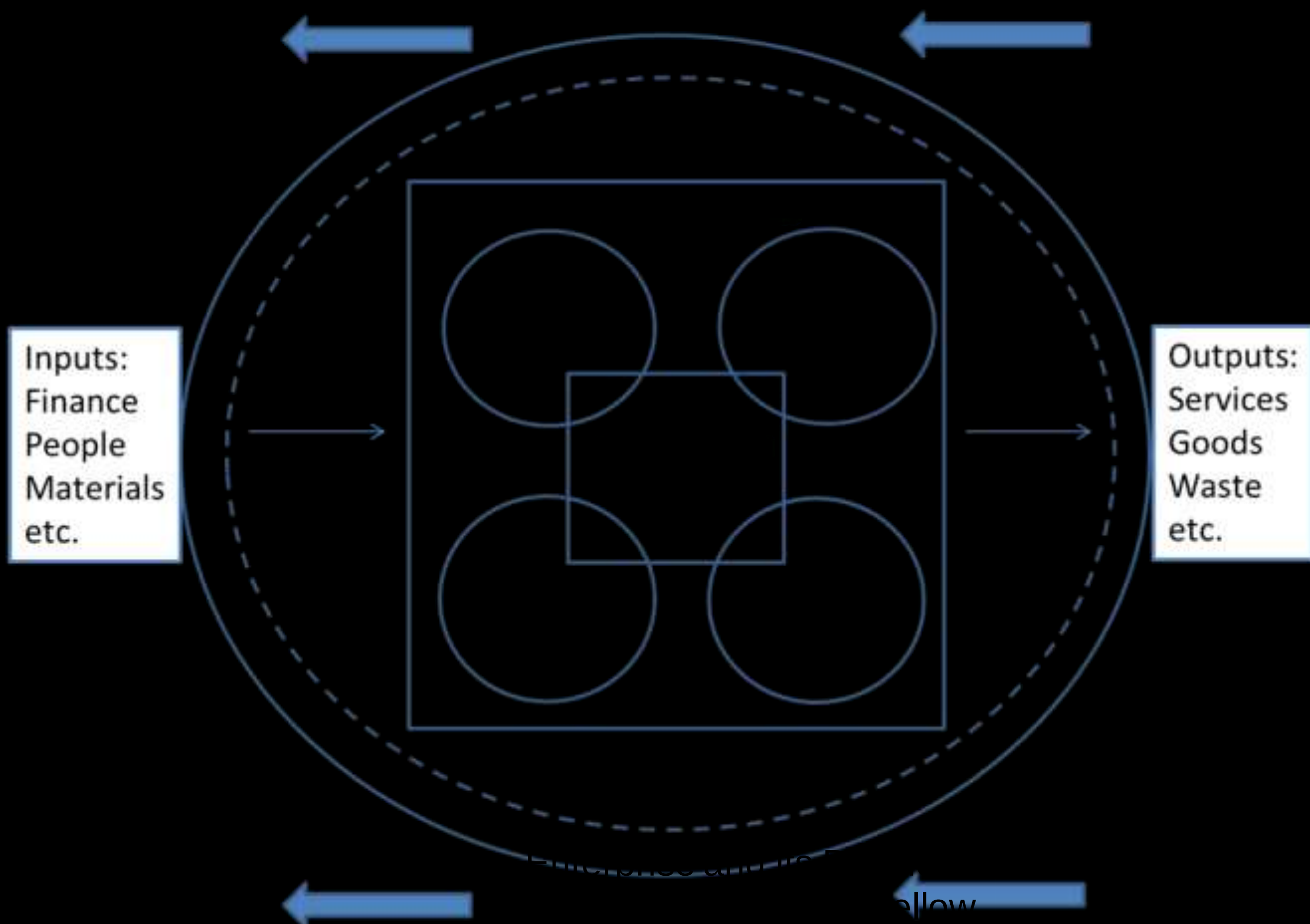
The Importance of Management

- Cost Rather Than Luxury & Delivered This (Their Unique Value Proposition)

The systems approach to the study of business organisations stresses the interaction between a firm's internal and external environments. Key aspects of the internal context of business include the organisation's structure and functions and the way they are configured in pursuit of specified organisational objectives. If the enterprise is to remain successful, constant attention needs to be paid to balancing the different influences on the organisation and to the requirement to adapt to new external circumstances. This responsibility lies essentially with the organisation's management, which has the task of blending people, technologies, structures and environments.


Finance and Accounts
Human Resources
Production/Operations
Functional Areas of Business
Customer Services
Administration/IT Support
Marketing/Sales
Research and Development


External environment
Organisation
Input
• People
• Finance
• Materials
etc.
Managing
transformation
processes
Output
• Goods
• Services
• Reputation
• Waste
etc.
Feedback


Inputs:
Finance
People
Materials
etc.
Outputs:
Services
Goods
Waste
etc.

GMS

Ways

GMS

Capabilities	Associated Behaviours	Significance
Positive	Visioning. Articulating. Inspiring. Deciding. Resolving. Selling.	Positive projection of future, inspires confidence, belief and commitment.
Negative	Waiting. Listening. Contemplating. Testing. Feeling. Absorbing.	Enables engagement with complex issues and maintenance of focus when uncertainty is rife, preventing dispersal into unfocused activity.
Conceptual	Analyzing. Auditing. Appraising. Strategizing. Researching. Theorizing.	Well grounded and realizable strategies follow from the application of abstract reasoning and the evaluation of evidence.
Creative	Experimenting. Interacting. Harmonizing. Patterning. Imagining.	Enterprise and innovation follow from creative engagement with market and other business imperatives.
Relational	Communicating. Empathizing. Building solidarity. Reaching out. Giving. Demonstrating Competence.	Trust, confidence and reputational gain are the products of relational excellence. Each is vital to the effective management of networks and alliances.

Critically

CHANGING BUSINESS DYNAMICS VRS. SKILL-READINESS

Dr. Keshab Nandy

Professor of Management,NMIMS

CONTEMPORARY SCENARIO

- ***INTENSE COMPETITION*** : Product Life Cycle becoming shorter and shorter, requiring new knowledge for survival and growth of Organisation
- **RAPID UPSCALING OF BENCHMARKS:** Continual Search for Cutting-Edge over competitors pushing Benchmarks up perennially
- ***EVERCHANGING BENCHMARKS IN JOB DELIVERY REQUIRES QUICK SHIFT IN SKILL INVENTORY:***

Management Graduates lack Ready-to Use Skills

- Industry experience no pre-requisite for admission to MBA

- ***Management Student not treated as PRODUCT FOR INDUSTRY***

- Syllabus not updated every year to include new industry Orientation/Innovations

- Very few teachers teach FOR FUTURE resulting in students on joining Industry trying to solve today’s problems with yesterday’s solutions

NEED OF THE HOUR

- **Close Industry-Academia Interface**
- **Innovation, Creativity & Entrepreneurship—Top agenda in Management Education**
- **Urgent mass-scale Up-Skilling of youth in contemporary & futuristic applied knowledge & skill**

Emerging Business Challenges on the face of Rapid Tech. Strides

- ***Progression of Organisational Dynamics to Robotics,Machine Learning & Data Analytics***

- ***Man to Machine & Vice Versa will be the challenging Productivity Drivers***

- ***High employee turn over & huge relocation of jobs to developing & coding of machine language,designing & programming of robots***

WAY AHEAD FOR LEVERAGING ON DEMOGRAPHIC DIVIDEND

- **Strong Industry-Academia Interface**
- **Industry to encourage "*Idea Research*" in Management students**
- **Re-orientation of FDPs with current topical research, contemporary skill development & analyses of latest case-studies with industry leaders**

THANK YOU

keshab.nandy@nmims.edu

What is Crowdfunding?

- Crowdfunding is an **online money-raising strategy** that began as a way for the public to donate small amounts of money, often through social networking websites, to help artists, musicians, filmmakers and other creative people finance their projects.

What is Crowdfunding?

- The concept has recently been promoted as a way of assisting small businesses and start-ups looking for investment capital to help get their business ventures off the ground.

What is Crowdfunding?

- Traditionally, investment opportunities are offered by professionals, such as broker-dealer firms and investment advisers, who must recommend investments that are based on their clients' investment objectives and levels of sophistication.

What is Crowdfunding?

- Through crowdfunding, individuals are able to invest in entrepreneurial start-ups through an intermediary, such as a broker-dealer or a "funding portal."

- By law, "**funding portals**" are not allowed to provide investment advice.

What is a Funding Portal?

- A funding portal is a website, also called a "platform," that advertises the investment opportunities and facilitates the payment from the investor to the issuer.

- Some portals advertise a variety of investment opportunities on one website, allowing the investor to select one or more projects in which to invest.

How Crowdfunding Works

Today . . .

- Mary's **small business sells goat cheese** made from her special pygmy goats.

- To keep her business afloat or to help it grow, Mary can **turn to the Internet to seek online donations from the public** who contribute small amounts of money and expect nothing in return.

- Mary usually sends a sample of her **cheese as a thank you for the donation**; large donors might even get a cheese named in their honor.

How Crowdfunding Works

Coming Soon . . .

- New legislation has directed the SEC to write rules that will change how Mary can raise money online.

- Once the rules are written, Mary will be able to **use the Internet to raise up to $1 million each year by selling investments** in her company to thousands of investors.

- Because Mary will be issuing shares in her company in exchange for investment capital, her **supporters are no longer donors; they become investors** and will expect a financial return for their investment.

Why Investors Should be Cautious About Crowdfunding

- Beware of crowdfunding offerings that seek investments immediately.

- All investments have risk, but small business investments have even greater risk than normal. About 50 percent of all small businesses fail within the first five years.

Why Investors Should be Cautious About Crowdfunding

- Issuers using funding portals to raise money may be inexperienced. Their track records maybe unproven, unsubstantiated or outright fraudulent.
- The information about the investment is limited to what is provided through the funding portal. Investors may need to rely on their own research to determine the issuer's track record.

Why Investors Should be Cautious About Crowdfunding

- Because state regulators are not allowed to review crowdfunding issuers or their offerings, full and complete disclosure may not be available to investors.

Why Investors Should be Cautious About Crowdfunding

- Investors may have limited legal ability to take action against the issuer should the investment not perform as represented.

- Due to limited regulatory oversight over these offerings, investors may be left on their own to pursue costly private lawsuits when things go wrong.

Why Investors Should be Cautious About Crowdfunding

- Crowdfunding investments are mostly illiquid and investors must be prepared to hold their investments indefinitely.

- It also may be difficult or impossible to resell these securities due to the lack of a secondary market.

Why Investors Should be Cautious About Crowdfunding

- Crowdfunding portals claiming an accreditation or “seal of approval” from a standards program or board may not be legitimate.

Bottom Line for Investors

- It **pays to be skeptical** of investment opportunities you learn about through the Internet.

- When you see an offering on the Internet — whether it is on a funding portal, in an online newsletter, on a message board or in a chat room — you should **be cautious** until you have done your homework and proven that it isn't a scam.

Porter’s Five Forces and Generic Strategies

What is the need?

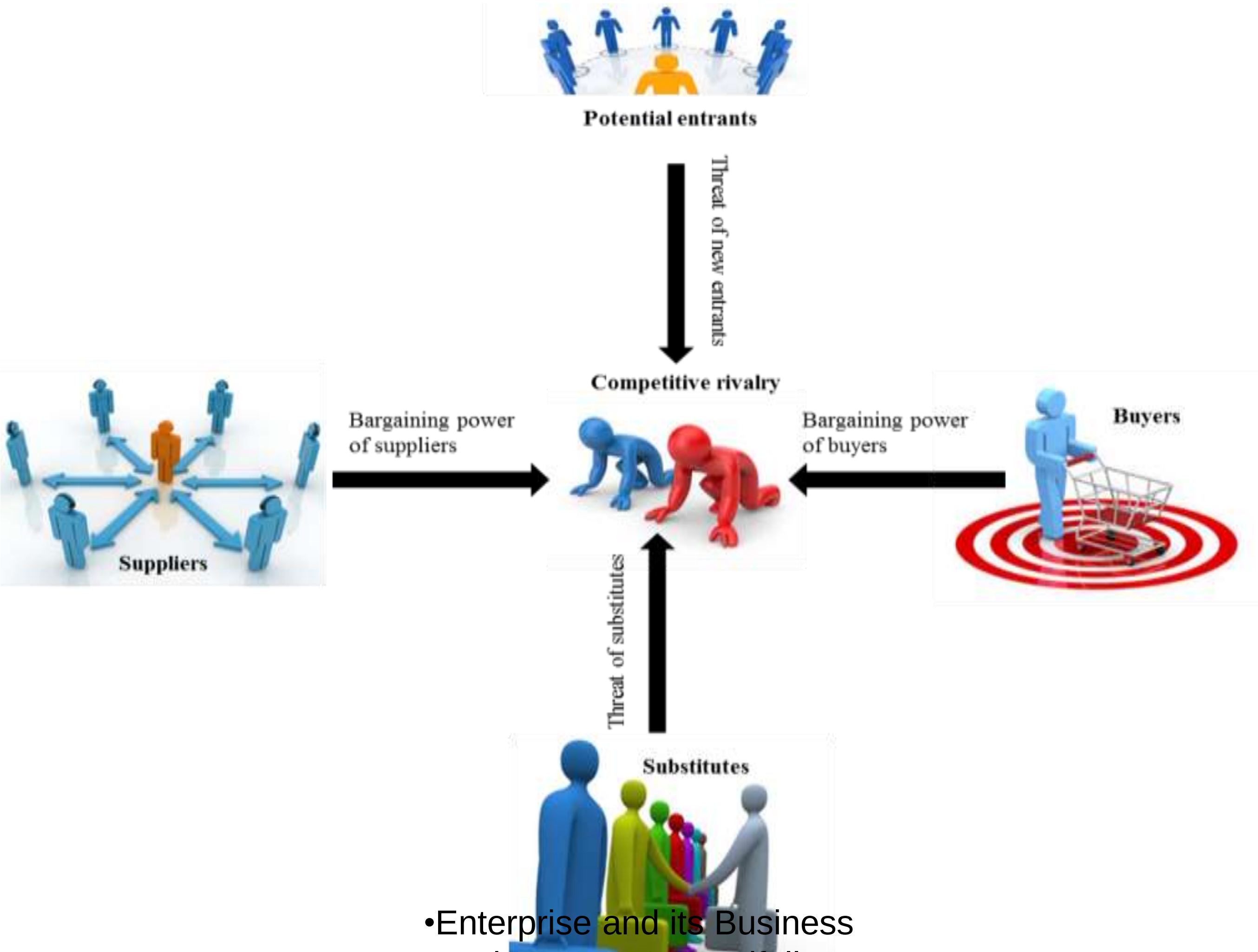
- Growth in globalised competition
- To ensure competitive advantage

- Porter (1980) argues that by understanding "the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time."

What are the five forces?

- The five forces model is based on the theory of determining the competitive intensity and attractiveness of a market
- The key five forces involve:
  - The ease of entry (dependent upon entry barriers),
  - The power of buyers,
  - Suppliers, whereby the bargaining power of each group influences profitability, the availability of,
  - Substitutes which could potentially include alternatives for consumers, and the degree of,
  - Rivalry among competitors.

What are the five forces?



What are the five forces?

nsights and attributes into competitive industries:

- It implied micro-economic theory into just 5 major influences.
- It effectively and before its time applied ‘systems thinking’.
- It showed how ‘competitive rivalry’ is very much a function of the other four forces.
- It helped predict the long-run rate of returns in a particular industry.
- It went beyond a more simplistic focus on relative market growth rates in determining industry attractiveness.
- It helped combine input-output analysis of a specific industry with industry boundaries via entry barriers and substitutes.
- It emphasized the importance of searching for imperfect markets, which offer more national opportunities for superior returns.

Competitive Rivalry

Competitive Rivalry

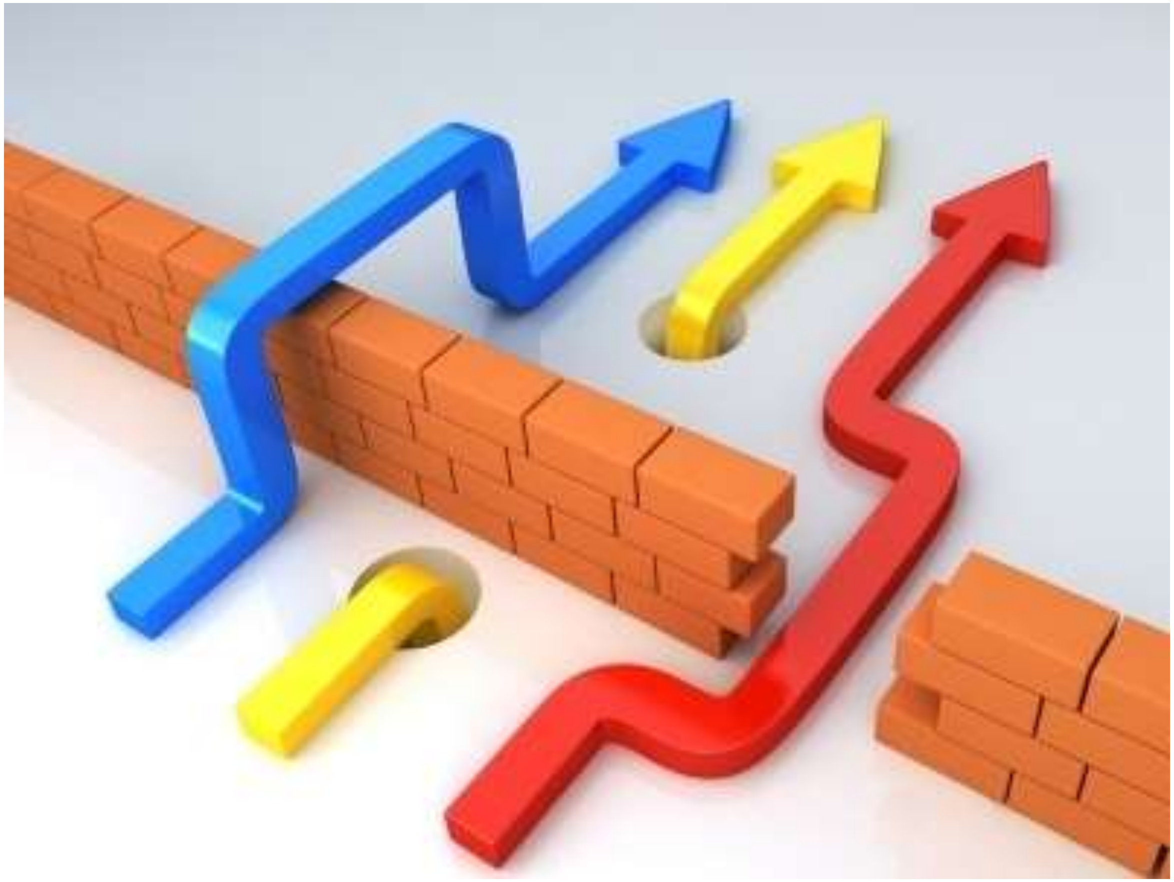
- One of the most important
- Increase in pressure, time and cost!

- Factors
    - Number of Competitors
    - Market Size
    - Product differentiation
    - Power of buyers
    - Capacity utilisation
    - Cost structure
    - Exit barriers

Competitive Rivalry

- Benefits
  - Differentiation
    - Research and Development
  - Lowers prices
  - Economic growth

The threat of entry



The threat of entry

- Involves organisations entering into an industry whereby they will gain market share and competition will intensify

- Six barriers to entry
  - Economies of scale
  - Product differentiation – Loyalty (Shugan, 2005)
  - Capital Requirements
  - Cost disadvantages
    - Raw materials
    - Favorable locations
    - Government subsidies
  - Distribution channels (Grimm, 2006)

Buying power

Buying power

- Customers who **collectively** become a powerful group
- Exert pressure
- Drive down prices
- Increase the quality of good

Buying power

- Determinants
  - Bought in large values of quantity
  - Product or service is standard or undifferentiated
  - Buyer is large and supplier is small
  - Threats of vertical integration
    - Increases pressure to meet demands

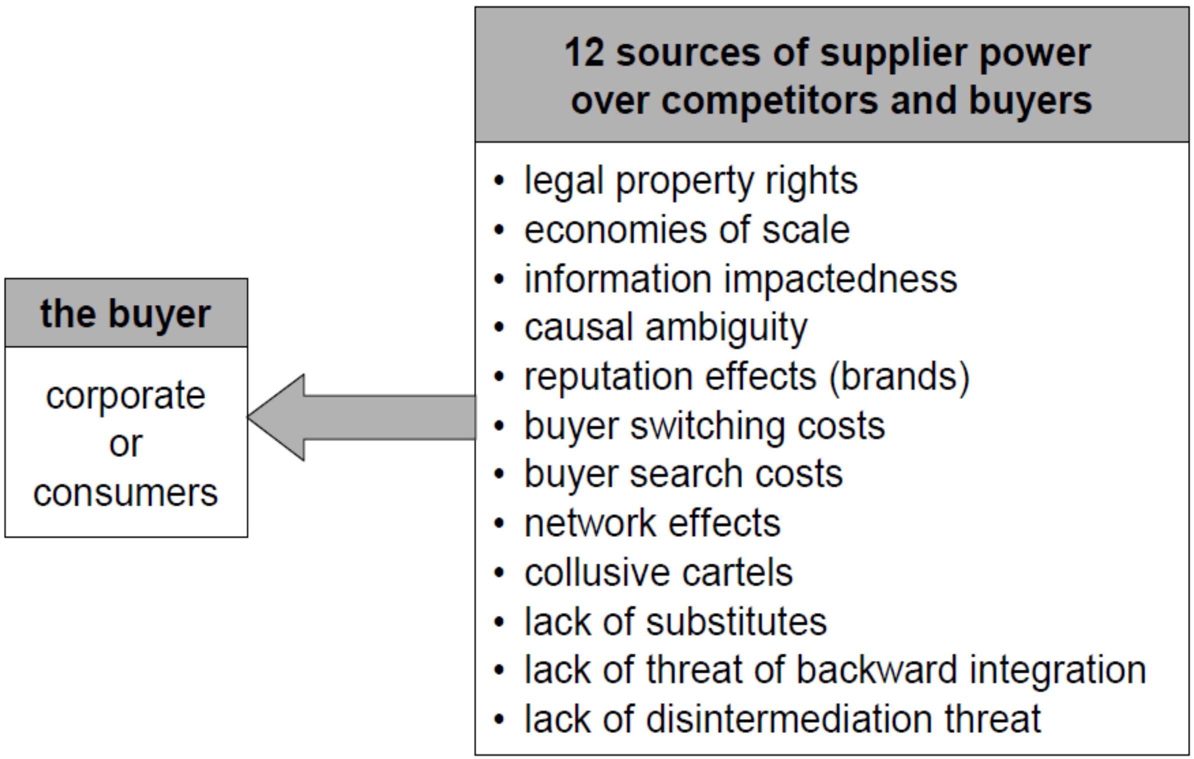
Supplier power

Supplier power

- The suppliers have power to sell their products at higher prices.
- Example: Fast Food Restaurants

Supplier power

- The fundamental bases of supplier power over buyers (Cox, 2001)



Threat of substitutes

Threat of substitutes

- “A substitute performs the same or a similar function as an industry’s product by a different function . . . [and] limit an industry’s profit potential by placing a ceiling on prices” (Porter, 2008: 84).

- Extent depends on:
    - Switching costs
    - Product price
    - Product quality

Reviewing the five forces

Harvard Business Review

https://hbr.org/video/3590615226001/the-explainer-porters-five-forces

Criticisms of the Five Forces

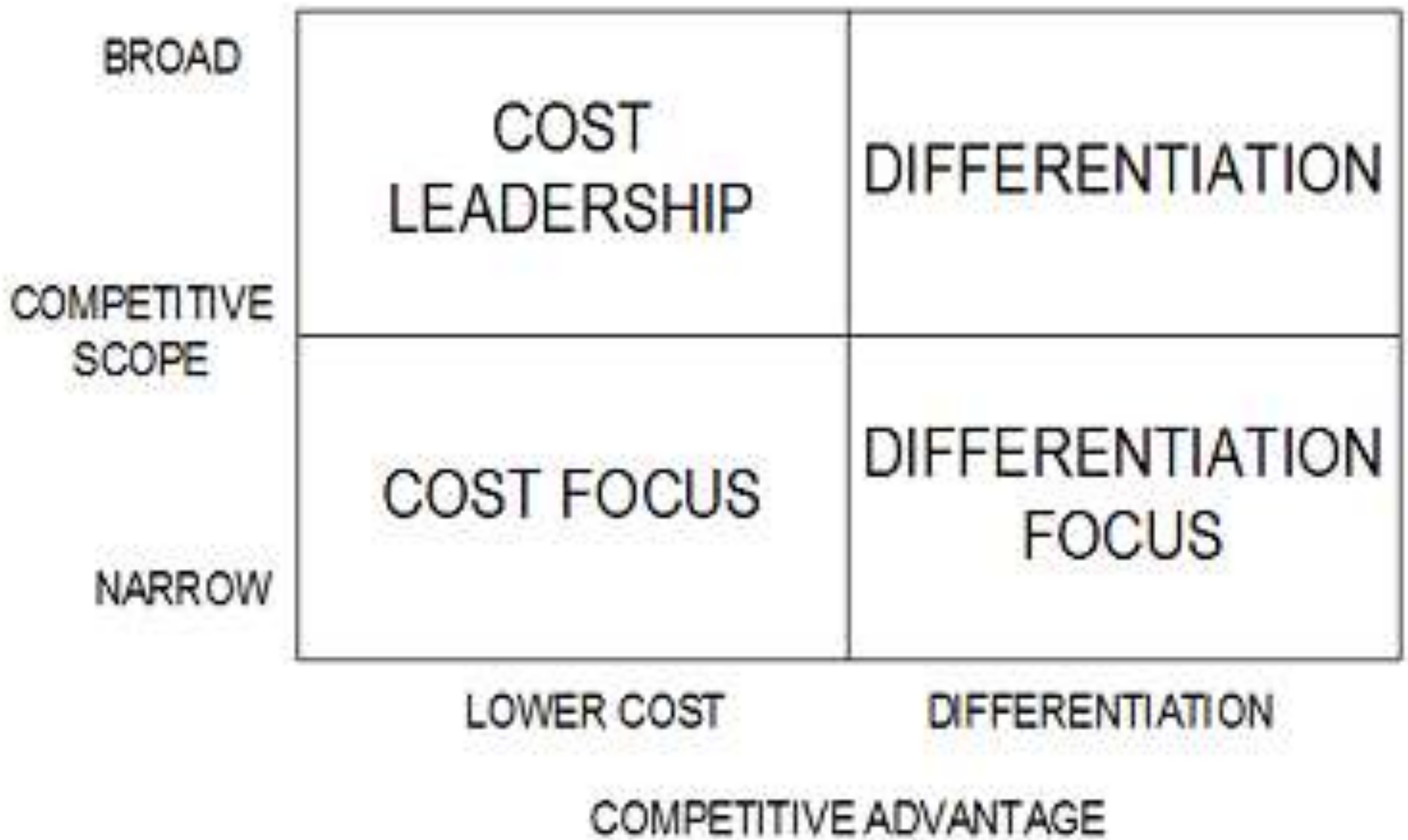
- Does not assist firms to identify and leverage unique sustainable advantages (Speed, 1989).
- Focuses on attractiveness of industries rather how firms gain an advantageous position
- Overemphasises competition and lack of cooperation
- Cannot generalise. Based on a snap shot of time

Given these criticisms it is worth mentioning that it has been suggested that “each of Porter’s five forces offers a useful ‘window’ onto industry dynamics” (MacIntosh and MacLean, 2015: 64).

Porter’s Generic Strategies

- For organisations to survive and succeed they need to adopt a competitive strategy
- Based on gaining competitive advantage
  - Gaining advantage through better value, price or benefits

Porter's Generic Strategies



Source: Adapted from Porter (1985: 12).

Cost Leadership

- Focuses on gaining competitive advantage by having the lowest cost in the industry
- Aim
  - To service mass market
- Techniques
  - Mass production
  - Mass distribution
  - Economies of scale
  - Technology
  - Product design

Differentiation

- Concentrates on providing a unique product or service, developing a unique selling point (USP) to ensure they are different from their competitors
- Tailoring to individual customer segments
- Techniques
    - Extra features
    - Quality
    - Price

Focus/Differentiation Focus

- Concentrates on a selected few target markets (focus) or seeks differentiation in its target segment
- Aim
  - Gain a competitive advantage through effectiveness rather than efficiency
- Techniques
  - Being clear in differences with competition
  - Being clear in differences with other consumers
  - Niche status

‘Stuck in the middle’

- Attempt to adopt all three of these strategies
- Demonstrates indecisiveness on competitive strategy
- Lack of clarity

Criticisms: Porter's generic strategies

- Theoretical shortcomings
    - Too general. Simplistic strategy
- Fit with reality
    - Clash with empirical reality
    - Limited market knowledge
- Limited applicability
    - Not applicable for small firms/ fragmented markets / retailers
- Alternative theatrical approaches
    - Should apply a resource – based approach
    - Process is flexible

Further reading

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•Garau, C. (2007). Porter's generic strategies: a re-interpretttion foma realtiosnship marketing perspective. *The Marketing Review* 7(4), 369-383.

•Grimm, H. (2006). "Entrepreneurship Policy and Regional Economic Growth: Exploring the Link and Theoretical Implications." In Rihoux, B. and Grimm, H. (eds.) *Innovative Comparative. Methods for Policy Analysis Beyond the Quantitative-Qualitative Divide* USA: Springer.

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•Porter, M.E. (1985). *Competitive Advantage*. New York: Free Press.

•Porter, M.E. (2008) The five competitive forces that shape strategy. *Harvard Business Review* 86(1), 25-40.

•Shugan, S.M. (2005). Brand Loyalty Programs: Are They Shams? *Marketing Science* 24(2), 185-193

•Speed, R.J. (1989). Oh Mr Porter! A re-appraisal of competitive strategy. *Marketing Intelligence & Planning* 7(5/6), 8-11.

Contents

1) The nature of an internal audit

2) Relationship among the functional areas of business

The Nature of an Internal Audit

- **Internal Audit** is a Parallel process of external audit.
- It gathers & assimilates information from Management, Marketing, Finance/accounting, Production/operations, Research & development and Management information system.

Cont'd....

- All organizations have ***strengths*** and ***weaknesses*** in the functional areas of business.
- No enterprise is **equally** strong or weak in all areas.
- Maytag, for example, is known for excellent production and product design, whereas Procter & Gamble is known for ***superb marketing***.

Cont'd….

- Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for ***establishing objectives and strategies.***
- Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses.

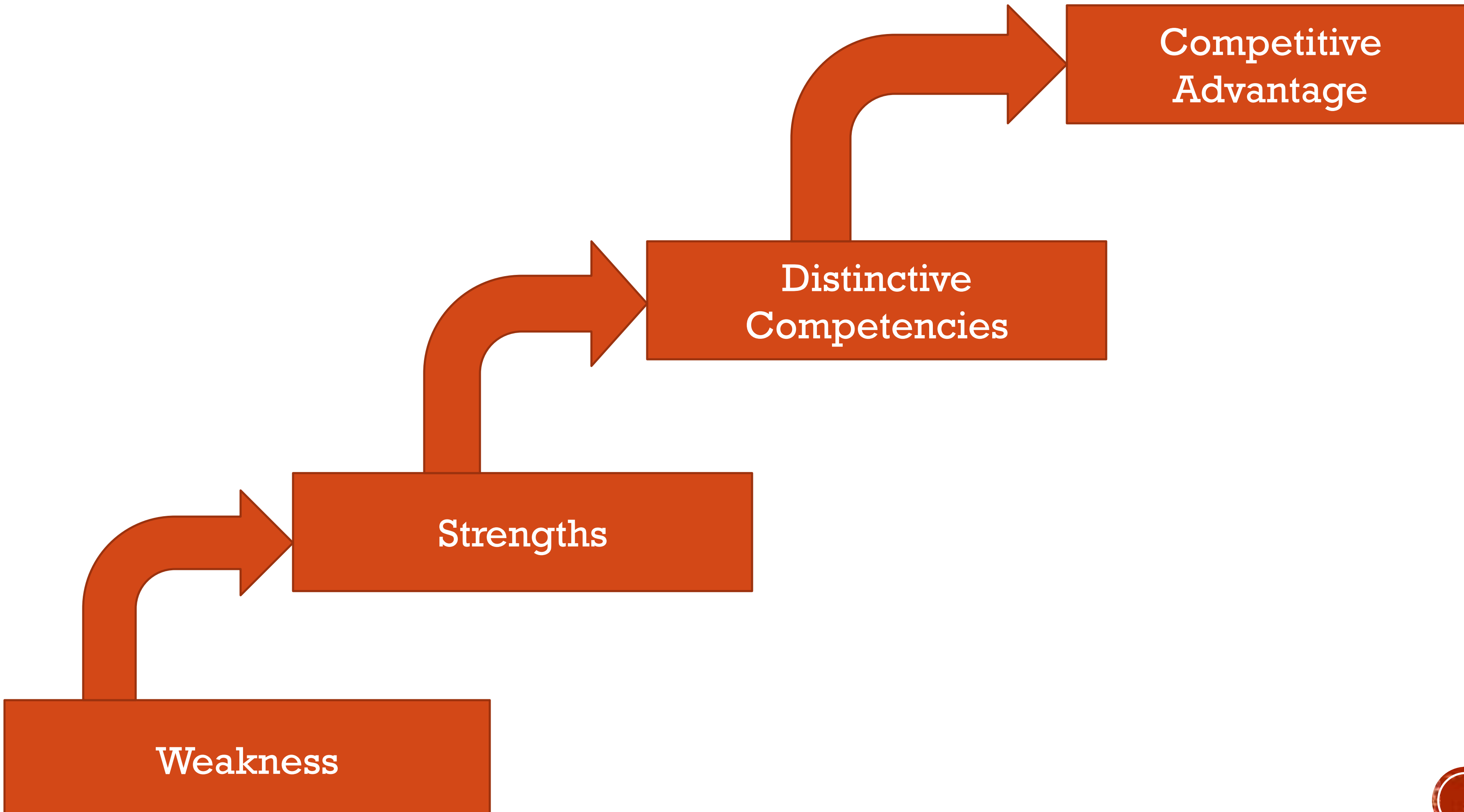
Key Internal Forces

- It is not possible to review in depth all the material presented in courses such as marketing, finance, accounting, management, management information systems, and production/operations; there are many ***subareas*** within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing.

Cont'd....

- Functional areas of a university can include athletic programs, placement services, housing, fund-raising, academic research, counselling, and intramural programs.
- Within large organizations, each division has certain strengths and weaknesses.
- Therefore, it is impossible to list all the strengths and weakness.
- A firm's strengths that cannot be easily matched or imitated by competitors are called ***distinctive competencies.*** Building competitive advantages involves taking advantage of distinctive competencies.

Role of Strategies:



The Process of Performing an Internal Audit

- The process of performing an *internal audit* closely parallels the process of performing an external audit.
- In IA representative managers and employees from throughout the firm need to be involved in determining a firm's strengths and weaknesses.
- The internal audit requires gathering and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems operations

Cont'd....

- Compared to the external audit, the process of performing an internal audit provides ***more opportunity for participants*** to understand how their jobs, departments, and divisions fit into the whole organization.

- Performing an internal audit, thus, is an excellent vehicle or forum for improving the process of communication in the organization. ***Communicatio****n* may be the most important word in management.

Cont'd....

- Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and management information systems managers.
- A key to organizational success is effective **coordination and understanding** among managers from all functional business areas.
- Through involvement in performing an internal strategic-management audit, managers from different departments and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm.
- Knowledge of these relationships is critical for effectively establishing objectives and strategies.

Cont'd....

- Performing an internal audit requires gathering, assimilating, and evaluating information about ***the firm's operations.***
- Critical success factors, consisting of both strengths and weaknesses, can be identified and prioritized and 10 -20 critical SW will be identified.

The Resource-based View (RBV)

- Some researchers emphasize the importance of the internal audit part of the strategic management process by comparing it to the external audit.
- Robert Grant concluded that the internal audit is more important, saying:

In a world where customer preferences are volatile, the identity of customers is changing, and the technologies for serving customer requirements are continually evolving, an externally focused orientation does not provide a secure foundation for formulating long-term strategy. When the external environment is in a state of flux, the firm's own resources and capabilities may be a much more stable basis on which to define its identity. Hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs which the business seeks to satisfy.

Cont'd….

- The ***Resource-Based View (RBV)*** approach to competitive advantage contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage. RBV theory asserts that resources are actually what helps a firm exploit opportunities and neutralize threats.
- The RBV view contend that organizational performance will primarily be determined by internal resources that can be grouped into **three** all-encompassing categories:

1. **Physical resources**: include all plant and equipment, location, technology, raw materials, machines;
2. **Human resources**: include all employees, training, experience, intelligence, knowledge, skills, abilities; and
3. **Organizational resources:** include firm structure, planning processes, information systems, patents, trademarks, copyrights, databases, and so on.

Cont'd....

- The basic premise of the RBV is that the **mix**, **type**, **amount**, and **nature** of a firm's **internal resources** should be considered first and foremost in devising strategies that can lead to **sustainable competitive advantage**.
- According to the RBV involves developing and exploiting a firm's **unique resources and capabilities**, and continually maintaining and strengthening those resources is very important.
- The theory asserts that it is advantageous for a firm to pursue a strategy that is not currently being implemented by any competing firm.

Cont'd....

- When other firms are unable to duplicate a particular strategy, then the focal firm has a sustainable competitive advantage, according to RBV theorists.

For a resource to be valuable, it must be either

a) Rare,

b) Hard to imitate, or

c) Not easily substitutable.

- These three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable **competitive advantage.**
- The more a resource(s) is rare, non-imitable, and non-substitutable, the stronger a firm's competitive advantage will be and the longer it will last.

Integrating Strategy and Culture

- Relationships among a firm's functional business activities perhaps can be exemplified best by focusing on organizational culture, an internal phenomenon that permeates all departments and divisions of an organization.
- ***Organizational culture*** can be defined as "a pattern of behaviour that has been developed by an organization as it learns to cope with its problem of external adaptation and internal integration, and that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel.

Cont'd….

- Dimensions of organizational culture permeate all the functional areas of business.
- It is something of an art to uncover the basic values and beliefs that are deeply buried in an organization's rich collection of **stories, language, heroes, and rituals**, but cultural products can represent both important strengths and weaknesses.

Cont'd....

- Organizational culture significantly affects business **decisions** and thus must be evaluated during an internal **strategic-management audit.**
- If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can ***swiftly and easily implement changes***.
- However, if the firm's culture is not supportive, strategic changes may be ineffective or even counterproductive.

Fifteen Example (Possible) Aspects of an Organization's Culture

Dimension	Degree				
1. Strong work ethic; arrive early and leave late	1	2	3	4	5
2. High ethical beliefs; clear code of business ethics followed	1	2	3	4	5
3. Formal dress; shirt and tie expected	1	2	3	4	5
4. Informal dress; many casual dress days	1	2	3	4	5
5. Socialize together outside of work	1	2	3	4	5
6. Do not question supervisor's decision	1	2	3	4	5
7. Encourage whistle-blowing	1	2	3	4	5
8. Be health conscious; have a wellness program	1	2	3	4	5
9. Allow substantial "working from home"	1	2	3	4	5
10. Encourage creativity/innovation/openmindness	1	2	3	4	5
11. Support women and minorities; no glass ceiling	1	2	3	4	5
12. Be highly socially responsible; be philanthropic	1	2	3	4	5
13. Have numerous meetings	1	2	3	4	5
14. Have a participative management style	1	2	3	4	5
15. Preserve the natural environment; have a sustainability program	1	2	3	4	5

Cont'd….

- Internal **strengths** and **weaknesses** associated with a firm's culture sometimes are overlooked because of the interfunctional nature of this phenomenon.
- It is important, therefore, for strategists to understand their firm as a sociocultural system.
- Success is often determined by linkages between a firm's culture and strategies.

Cont'd....

- A key to organizational success is effective coordination and understanding among managers from all functional business areas.
- Through involvement in performing an internal strategic-management audit, managers from different departments and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm.

1. Management

TABLE 4-3 The Basic Functions of Management

Function	Description	Stage of Strategic-Management Process When Most Important
Planning	Planning consists of all those managerial activities related to preparing for the future. Specific tasks include forecasting, establishing objectives, devising strategies, developing policies, and setting goals.	Strategy Formulation
Organizing	Organizing includes all those managerial activities that result in a structure of task and authority relationships. Specific areas include organizational design, job specialization, job descriptions, job specifications, span of control, unity of command, coordination, job design, and job analysis.	Strategy Implementation
Motivating	Motivating involves efforts directed toward shaping human behavior. Specific topics include leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.	Strategy Implementation
Staffing	Staffing activities are centered on personnel or human resource management. Included are wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, affirmative action, equal employment opportunity, union relations, career development, personnel research, discipline policies, grievance procedures, and public relations.	Strategy Implementation
Controlling	Controlling refers to all those managerial activities directed toward ensuring that actual results are consistent with planned results. Key areas of concern include quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.	Strategy Evaluation

To be continued….

2. Marketing

- Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services. There are seven basic *functions of marketing:*

1) Customer analysis,
2) Selling products/services,
3) Product and service planning,
4) Pricing,
5) Distribution,
6) Marketing research, and
7) Cost benefit or Opportunity analysis.

- Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

Customer Analysis

- It is the examination and evaluation of consumer needs, desires, and wants — involves administering customer surveys, analysing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies.
- Members in the value chair will participate in this process.
- It serve as an input for developing mission statement

Selling products/services

- *Selling* includes many marketing activities, such as advertising, sales promotion, publicity, personal selling, sales force management, customer relations, and dealer relations. These activities are especially critical when a firm pursues a market penetration strategy.
- Personal selling is **most** important for industrial goods companies, and advertising is **most** important for consumer goods companies.

Product and Service Planning

- It includes activities such as test marketing; product and brand positioning; devising warranties; ***packaging***; determining product options, features, style, and quality; deleting old products; and providing for customer service.
- Product and service planning is particularly important when a company is pursuing product development or diversification.

Pricing

- **Five** major stakeholders affect *pricing* decisions: consumers, governments, suppliers, distributors, and competitors.
- Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers.
- Governments can impose constraints on price fixing, price discrimination, minimum prices, unit pricing, price advertising, and price controls.
- Change in exchange rates also affect price of local products.

Pricing

- ***Intense price competition***, created by the global economic recession, coupled with Internet price-comparative shopping has reduced profit margins to bare minimum levels for most companies.
- For example, airline tickets, rental car prices, hotel room rates, and computer prices are lower today than they have been in many years.

Distribution

- *Distribution* includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing.
- Distribution becomes especially important when a firm is striving to implement a market development or forward integration strategy. But, no finance.

Marketing Research

- *Marketing research* is the systematic gathering, recording, and analysing of data about problems relating to the marketing of goods and services.

The President of PepsiCo said, “Looking at the competition is the company’s best form of market research. The majority of our strategic successes are ideas that we borrow from the marketplace, usually from a small regional or local competitor. In each case, we spot a promising new idea, improve on it, and then out-execute our competitor.”

Cost/Benefit Analysis

- The seventh function of marketing is *cost/benefit analysis*, which involves assessing the costs, benefits, and risks associated with marketing decisions.

3. Finance/Accounting

- Financial condition is often considered the single best measure of a firm’s competitive position and overall attractiveness to investors.
- Determining an organization’s financial strengths and weaknesses is essential to effectively formulating strategies.
- A firm’s liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives.
- Financial factors often alter existing strategies and change implementation plans.

Cont'd….

- The *functions of finance/accounting* comprise three decisions:

1. The investment decision,
2. The financing decision, and
3. The dividend decision

- Financial ratio analysis is the most widely used method for determining an organization's strengths and weaknesses in the investment, financing, and dividend areas.

Cont'd….

- The ***investment decision,*** also called *capital budgeting*, is the allocation and reallocation of capital and resources to projects, products, assets, and divisions of an organization.
- The ***financing decision*** determines the best ***capital structure*** for the firm and includes examining various methods by which the firm can raise capital (for example, by issuing stock, increasing debt, selling assets, or using a combination of these approaches).

Cont'd....

- The financing decision must consider both short-term and long-term needs for working capital. Two key financial ratios that indicate whether a firm's financing decisions have been effective are the *debt-to-equity ratio* and the **debt-to-total-assets ratio**.
- ***Dividend decisions*** concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the repurchase or issuance of stock. Dividend decisions determine the amount of funds that are retained in a firm compared to the amount paid out to stockholders.

TABLE 4-6 A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs

Activity Ratios

Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average
Fixed Assets Turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant and equipment utilization
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	$\frac{\text{Accounts receivable}}{\text{Total credit sales/365 days}}$	The average length of time it takes a firm to collect on credit sales (in days)

Gross Profit Margin	$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)	$\frac{\text{Net income}}{\text{Total stockholders' equity}}$	After-tax profits per dollar of stockholders' investment in the firm

TABLE 4-6 A Summary of Key Financial Ratios—continued

Ratio	How Calculated	What It Measures
Profitability Ratios		
Earnings Per Share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock
Price-Earnings Ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Attractiveness of firm on equity markets
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

4. Production/Operations

- The *production/operations function* of a business consists of all those activities that transform inputs into goods and services. Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets.
- Roger Schroeder suggested that production/operations management comprises five functions or decision areas: ***process, capacity, inventory, workforce, and quality.***

TABLE 4-7 The Basic Functions (Decisions) Within Production/Operations

Decision Areas	Example Decisions
1. Process	These decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis. Distances from raw materials to production sites to customers are a major consideration.
2. Capacity	These decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis. Capacity utilization is a major consideration.
3. Inventory	These decisions involve managing the level of raw materials, work-in-process, and finished goods, especially considering what to order, when to order, how much to order, and materials handling.
4. Workforce	These decisions involve managing the skilled, unskilled, clerical, and managerial employees by caring for job design, work measurement, job enrichment, work standards, and motivation techniques.
5. Quality	These decisions are aimed at ensuring that high-quality goods and services are produced by caring for quality control, sampling, testing, quality assurance, and cost control.

Source: Adapted from R. Schroeder, *Operations Management* (New York: McGraw-Hill, 1981): 12.

5. Research And Development

- The fifth major area of internal operations that should be examined for specific strengths and weaknesses is *research and development (R&D)*.
- Many firms today conduct no R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.
- Organizations invest in R&D because they believe that such an investment will lead to a superior product or service and will give them competitive advantages.

Internal Vs External R&D

R&D in organizations can take two basic forms:

1. Internal R&D, in which an organization operates its own R&D department, and/or
2. Contract R&D, in which a firm hires independent researchers or independent agencies to develop specific products.

6. Management Information Systems

- Information ties all business functions together and provides the basis for all managerial decisions. It is the cornerstone of all organizations.
- Information represents a major source of competitive management advantage or disadvantage.
- Assessing a firm's internal ***strengths* and *weaknesses*** in information systems is a critical dimension of performing an internal audit.

Cont'd....

- A *management information system* receives raw material from both the **external and internal** evaluation of an organization.
- It gathers data about marketing, finance, production, and personnel matters ***internally***, and social, cultural, demographic, environmental, economic, political, governmental, legal, technological, and competitive factors ***externally***.
- Data are integrated in ways needed to support managerial decision making.

Value Chain Analysis (VCA)

- According to Porter, the business of a firm can best be described as a *value chain*, in which total revenues minus total costs of all activities undertaken to develop and market a product or service yields value.
- ***Value chain analysis*** *(VCA)* refers to the process whereby a firm determines the costs associated with organizational activities from *purchasing raw materials* to *manufacturing product(s)* to marketing those products.

Cont'd….

- VCA can enable a firm to better identify its own strengths and weaknesses, especially as ***compared to competitors***' value chain analyses and their own data examined over time.
- VCA aims to identify where **low-cost advantages** or **disadvantages** exist anywhere along the value chain from raw material to customer service activities.

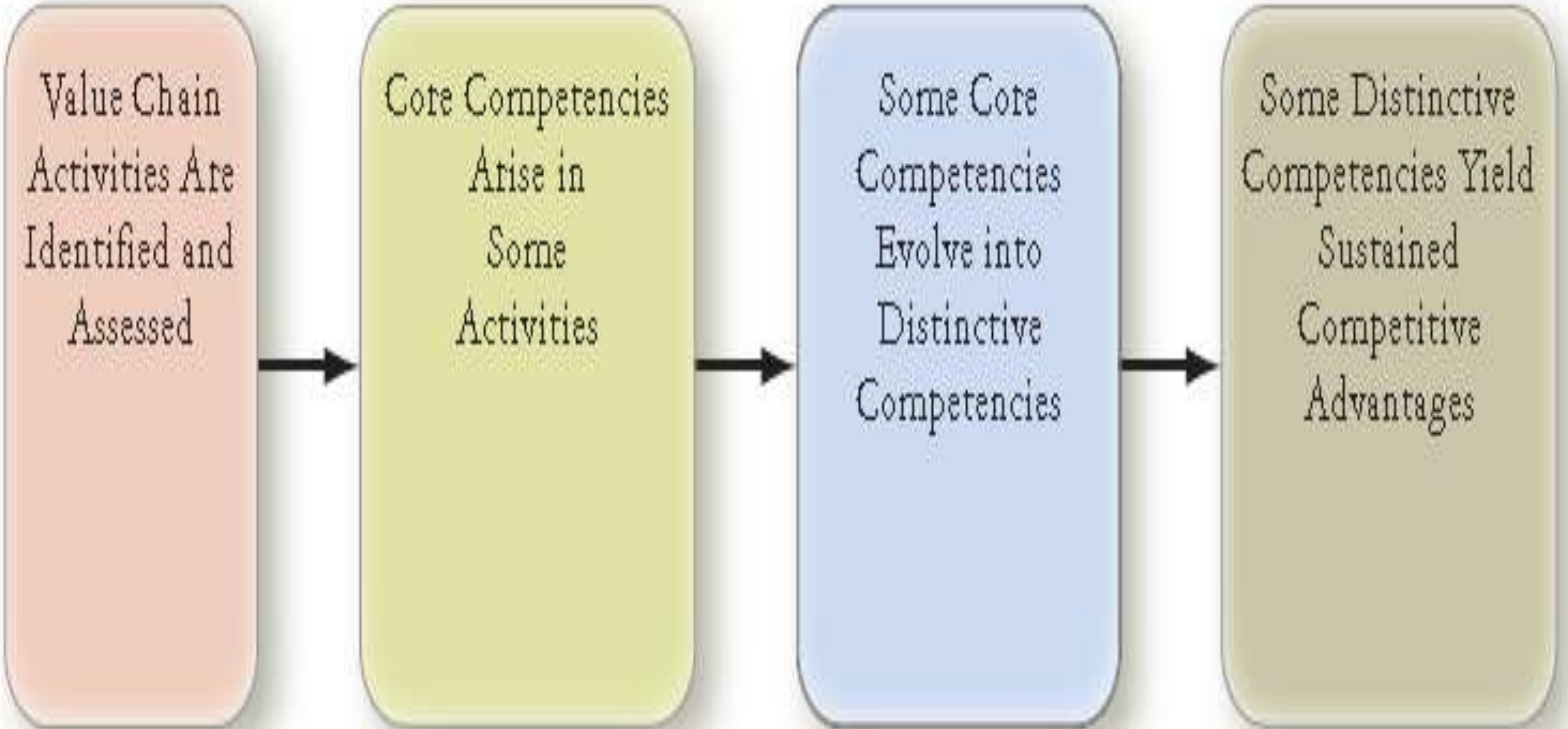
Cont'd....

- Firms should determine where cost advantages and disadvantages in their value chain occur *relative to the value chain of rival firms*.
- More and more companies are using VCA to gain and sustain competitive advantage by being especially efficient and effective along various parts of the value chain.
- **For example,** Wal-Mart has built powerful value advantages by focusing on exceptionally tight inventory control, volume purchasing of products, and offering exemplary customer service.

Cont'd….

- However, all firms should use value chain analysis to develop and nurture a core competence and convert this competence into a distinctive competence.
- A ***core competence*** is a value chain activity that a firm performs especially well.
- When a core competence evolves into a major competitive advantage, then it is called a ***distinctive competence***. The Figure illustrates this process.

Transforming Value Chain Activities into Sustained Competitive Advantage



Four Broad Areas Need To Be Considered For Internal Analysis

I. Resources

Resources are assets employed in the activities and processes of the organization.

Resources fall within several categories:

a) Human

b) Financial

c) Physical

d) Technological

e) Informational

An audit of resources would be likely to include an evaluation of resources in terms of availability, quantity and quality, extent of employment, sources, control systems and performance.

Cont'd…

II. **General Competences/capabilities**

- They are **assets** like industry-specific skills, relationships and organizational knowledge which are largely **intangible** and invisible assets.
- Competences and capabilities will often be internally generated, but may be obtained by **collaboration** with other organizations.

Cont'd…

III. **Core Competences/Distinctive Capabilities**

- Core competences or distinctive capabilities are **combinations of resources** and **capabilities** which are **unique** to a specific organization and which are responsible for generating its competitive advantage.

Kay (1993) identified ***four potential sources*** of **Core competences**:

- Reputation
- Architecture (i.e., internal and external relationship)
- Innovation
- Strategic assets

Criteria To Evaluate Core Competences

- **Complexity:** How elaborate is the bundle of resources and capabilities which comprise the core competence?
- **Identifiability:** How difficult is it to identify?
- **Imitability:** How difficult is it to imitate?
- **Durability:** How long does it be replaced by an alternative competences?
- **Superiority:** Is it clearly superior to the competences of other organizations?
- **Adaptability:** How easily can the competence be leveraged or adapted?
- **Customer orientation:** How is the competence perceived by customers and how far is it linked to their needs?

Benchmarking

- ***Benchmarking*** is an analytical tool used to determine whether a firm's ***value chain activities*** are **competitive compared** to rivals and thus conducive to winning in the marketplace.

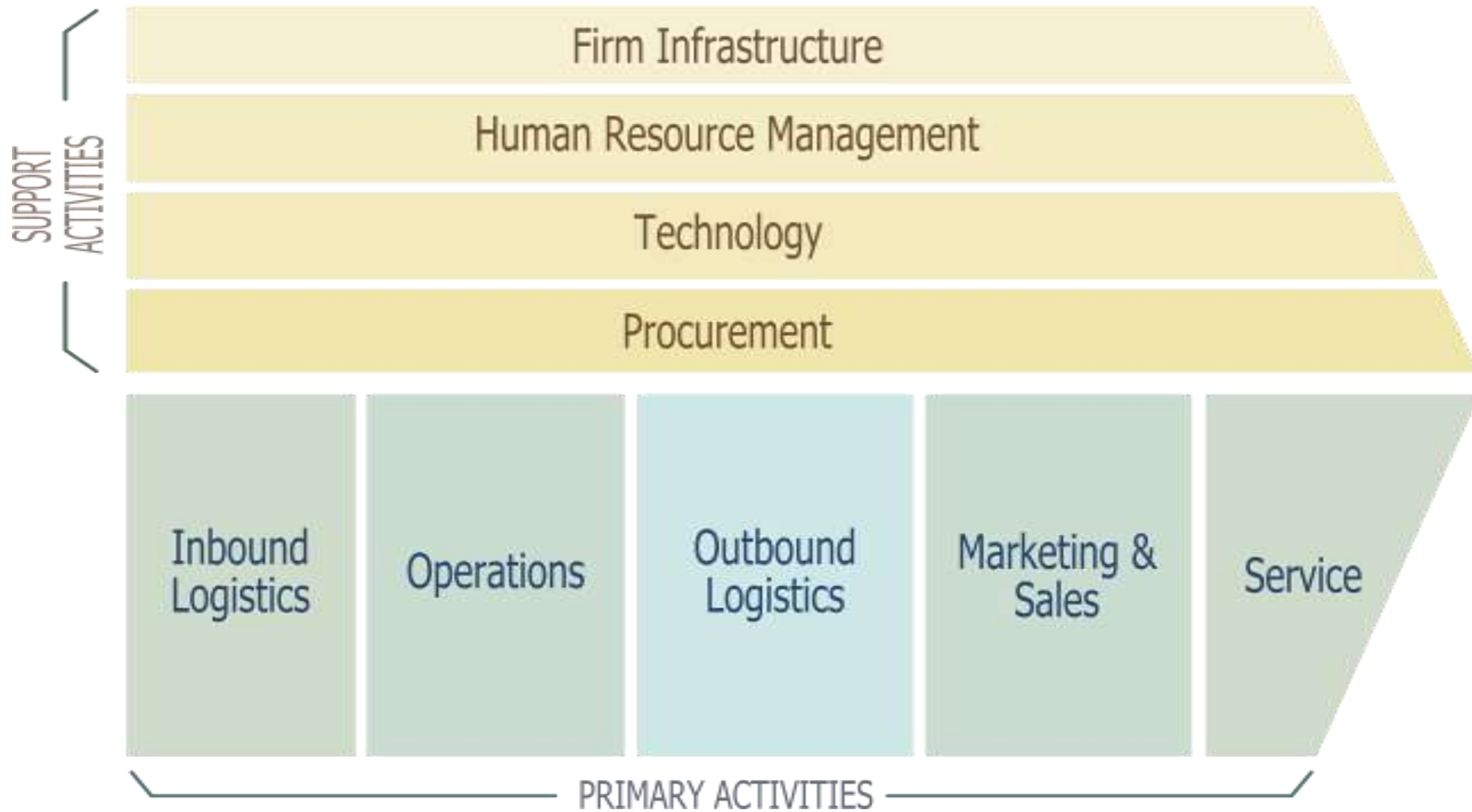
- Benchmarking entails measuring *costs of value chain* activities across an industry to determine **"best practices"** among competing firms for the purpose of duplicating or improving upon those best practices.

- Benchmarking enables a firm to take action to improve its competitiveness by identifying (and improving upon) value chain activities where ***rival firms have comparative advantages in cost, service, reputation, or operation.***

Cont'd....

- The hardest part of benchmarking can be ***gaining access to other firms' value chain activities*** with associated costs.
- Typical sources of benchmarking information, however, include published reports, trade publications, suppliers, distributors, customers, partners, creditors, shareholders, lobbyists, and willing rival firms. Some rival firms share benchmarking data.
- It can also be obtained from consulting business.

Value Chain Diagram



The Internal Factor Evaluation (IFE) Matrix

- A summary step in conducting an internal strategic-management audit is to construct an *Internal Factor Evaluation (IFE) Matrix.*
- This strategy-formulation tool summarizes and evaluates the major **strengths** and **weaknesses** in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas. Intuitive judgments are required in developing an IFE Matrix
- It is similar to EFE and CPM.

Cont'd....

1) List key internal factors (10-20) as identified in the internal-audit process. Use total of from ten to twenty internal factors, including both strengths and weaknesses. List strengths first and then weaknesses.

2) Assign a weight that ranges from 0.0 (not important) to 1.0 (very-important) to each factor. The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry.

3) Assign a 1-to-5 rating to each factor based on your relative response to each critical success factor. The rate can be assigned as (1) for a major weakness, (2) for a minor weakness, (3) as average, (4) for a minor strength, (5) for a major strength. Note that strengths must receive a 4 or 5 rating and weaknesses must receive a 1 or 2 rating. Multiply each factor's weight by its rating to determine a weighted score for each variable.

Cont'd….

- Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0, with the average score being 2.5.
- Total weighted scores well below 2.5 characterize organizations that are **weak internally**, whereas scores significantly above 2.5 indicate a **strong internal position**.
- Like the EFE Matrix, an IFE Matrix should include from 10 to 20 key factors.

IFE Example

- An example of an IFE Matrix for **Circus Enterprises** is provided in Table. Note that the firm's major **strengths** are its size, occupancy rates, property, and long-range planning as indicated by the rating of 4 and 5.
- The major **weaknesses** are locations and recent joint venture.
- The total weighted score of 3.2 indicates that the firm is above average in its overall internal strength.

Internal Strengths	.05	5	.25
1. Largest casino company in the United States	.10	5	.50
2. Room occupancy rates over 95% in Las Vegas	.05	4	.20
3. Increasing free cash flows	.15	5	.75
4. Owns one mile on Las Vegas Strip	.05	4	.20
5. Strong management team	.05	3	.15
6. Buffets at most facilities	.05	3	.15
7. Minimal comps provided	.05	3	.15
8. Long-range planning	.05	5	.25
9. Reputation as family-friendly	.05	3	.15
10. Financial ratios	.05	3	.15
Internal Weaknesses			
1. Most properties are located in Las Vegas	.05	1	.05
2. Little diversification	.05	2	.10
3. Family reputation, not high rollers	.05	2	.10
4. Laughlin properties	.10	1	.10
5. Recent loss of joint ventures	.10	1	.10
TOTAL	1.00		3.2

Internal Factors	Weight	Rating	Weighted Score
Internal Strengths			
1. Largest casino company in the United States	.10	5	.50
2. Room occupancy rates over 95% in Las Vegas	.05	4	.20
3. Increasing free cash flows	.15	5	.75
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8. Long-range planning	.05	5	.25
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10. Financial ratios	.05	3	.15
Internal Weaknesses			
1. Most properties are located in Las Vegas	.05	1	.05
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3. Family reputation, not high rollers	.05	2	.10
4. Laughlin properties	.10	1	.10
5. Recent loss of joint ventures	.10	1	.10
TOTAL	1.00		3.2

NOTE:

- In multidivisional firms, each ***autonomous division*** or strategic business unit should construct an IFE Matrix.
- Divisional matrices then can be integrated to develop an overall **corporate** IFE Matrix.

Summary

- Management, marketing, finance/accounting, production/operations, research and development, and management information systems represent the ***core operations of most businesses***.
- A strategic-management audit of a firm's internal operations is vital to A strategic-management audit of a firm's internal operations is vital to **organizational health**.
- An increasing number of successful organizations are using the internal audit to gain **competitive advantages** over rival firms.
- Systematic methodologies for performing strength-weakness assessments are not well developed in the strategic-management literature, but it is clear that strategists must identify and evaluate internal ***strengths and weaknesses*** in order to effectively formulate and choose among alternative strategies.
- The EFE Matrix, Competitive Profile Matrix, IFE Matrix, and clear statements of vision and mission provide the basic information needed to ***successfully formulate competitive strategies***.

To be continued

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ISO 26000

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What is ISO?

- ISO (International Organization for Standardization) is the world's largest developer of voluntary International Standards.
- Founded in 1947, it has published more than 19 500 International Standards covering most aspects of technology and business.
- ISO is also becoming increasingly active in the social sphere: ISO 26000, ISO work on Human Resources.

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Development of ISO 26000

• 2001	Proposal by the ISO's Committee on Consumer Policy (COPOLCO) for the drafting of an ISO standard on Social Responsibility.
• 2004	Decision by the ISO TMB for the development of an ISO SR Standard.
• 2005-2010	Development of ISO 26000 by more than 600 experts from 99 countries.
• Sept. 2010	Vote on the draft ISO 26000.
• Nov. 2010	Publication of ISO 26000.

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Objectives of ISO 26000

- to assist **all kinds of organizations** in contributing to sustainable development.
- to encourage organizations to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organization and an essential part of their social responsibility.
- to promote common understanding in the field of social responsibility.
- to complement other instruments and initiatives for social responsibility, not to replace them.

► Thus, ISO 26000 is a **voluntary guidance standard**!

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What ISO 26000 is not!

- ISO 26000 is not a management system standard.
- It is not intended or appropriate for certification purposes or regulatory or contractual use.
- Any offer to certify, or claims to be certified, to ISO 26000 would be a misrepresentation of the intent and purpose and a misuse of ISO 26000.
- As ISO 26000 does not contain requirements, any such certification would not be a demonstration of conformity.

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Why is ISO 26000 relevant for Business?

- The fact that it was developed through a global consensus process has given ISO 26000 a high profile and attracted significant attention.
- It is frequently listed together with the ILO Tripartite Declaration, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact as one of the main international instruments to guide business on social responsibility.
- Companies should be aware of ISO 26000 in order to respond to any potential requests from consumers, NGOs or customers.

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Seven Principles of social responsibility for organisations:

- **Accountability** for impacts on society, the economy and the environment
- **Transparency** in decisions and activities that impact on society and the environment
- **Ethical behaviour**
- **Respect, consideration and responsiveness towards stakeholder interests**
- **Respect for the rule of law**
- **Respect for international norms of behaviour**
- **Respect for human rights** and recognition of their importance and universality

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Core subjects

- Review all the core subjects to identify which issues are relevant.
- Assess the extent of the organization's impacts.

❖ There are no concrete recommendations - ISO 26000 is not a check list.

❖ Organisations have to identify themselves if and what kind of action is required.

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Guidance on integrating social responsibility

- Understanding the social responsibility of an organization through due diligence - identify the actual and potential negative social, environmental and economic impacts of an organization's decisions and activities, in order to avert and mitigate those impacts.
- Determining relevance and extent of core subjects and issues.
- Assessing an organization's sphere of influence and exercising influence.
- Establishing priorities for addressing issues.
- Raising awareness and building SR competency.

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- Building social responsibility into an organization's governance, systems and procedures.
- Communicating on SR.
- Resolving conflicts or disagreements between an organization and its stakeholders.
- Reviewing and improving organization's actions and practices related to social responsibility.

CSRforALL

"This Project is funded by the European Union"

What are the main strengths of ISO 26000?

- It reflects broad international consensus on the elements of social responsibility, drawn from authoritative international instruments;
- As such, it serves as a good basis for cross-border discussions on social responsibility;
- It provides good orientation for starting a social responsibility journey;
- It contains a good basis for engaging in stakeholder dialogue and other external discussions;
- It allows for freedom of use: users may draw upon as much or as little of the guidance as necessary to help inform their own social responsibility policies or practices.

CSRforALL

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What are the main weaknesses of ISO 26000?

- Unlike other international SR instruments, ISO 26000 is **not available free of charge.**
- At 118 pages, it is **long, complex and difficult to read.**
- Many elements of the guidance are oriented more toward larger organizations and will **not be relevant for smaller or medium-sized organizations.**
- The guidance **tends to dictate** actions rather than to explain the benefits of SR and encourage action.
- Even though ISO 26000 is explicitly not for certification, **it has been misused** by many certification services.

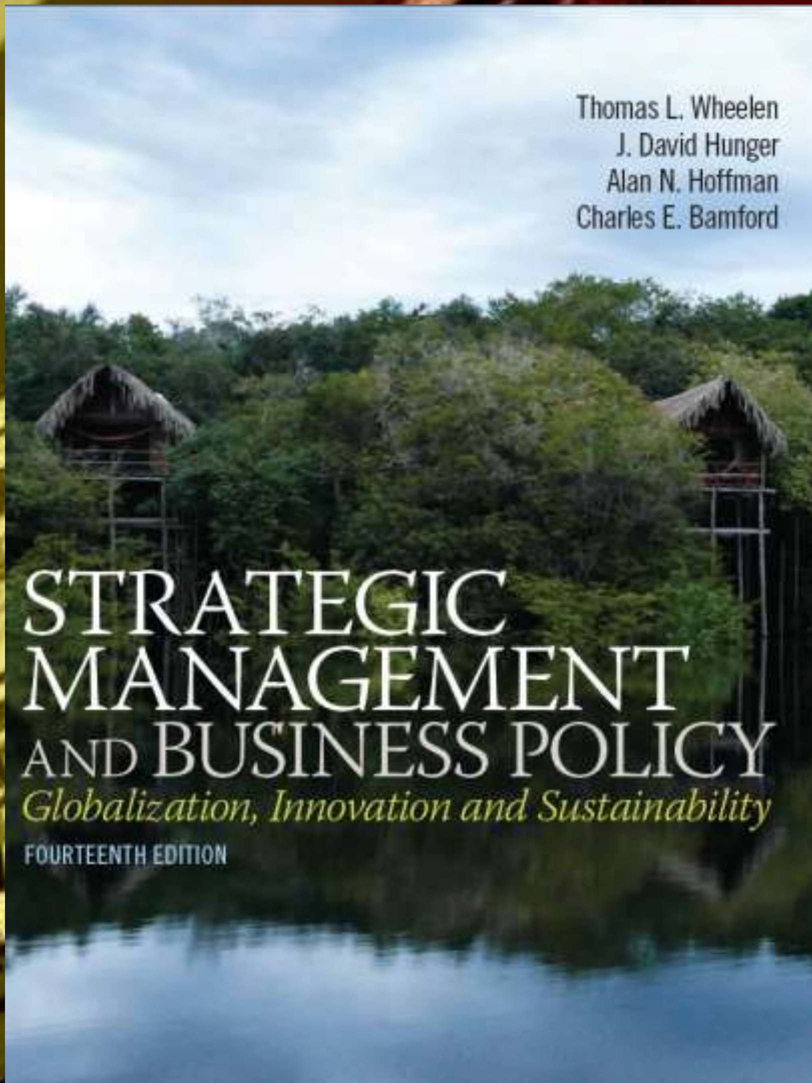
CSRforALL

“This Project is funded by the European Union”

Current issues around ISO 26000

- Since its launch the ISO 26000 discussion has been dominated by the issue of certification.
- Some national certifiable standards based on ISO 26000 have been developed (Denmark, Spain).
- There have also been efforts to develop ISO 26000 further at international level: proposal for the development of an ISO International Workshop Agreement on self-declaring the application of ISO 26000 (July 2012).
- A systematic review of ISO 26000 ended in March 2014: The majority of ISO member organisations want to keep ISO26000 as it stands.

CSRforALL



Basic Concepts of Strategic Management

Chapter 1

Learning Objectives

- Understand the benefits of strategic management
- Explain how globalization and environmental sustainability influence strategic management
- Understand the basic model of strategic management and its components

Learning Objectives

- Identify some common triggering events that act as stimuli for strategic change
- Understand strategic decision-making modes
- Use the strategic audit as a method of analyzing corporate functions and activities

The Study of Strategic Management

- **Strategic Management**
  - a set of managerial decisions and actions that determines the long-run performance of a corporation

The Study of Strategic Management

Strategic Management includes:

- Internal and external environment scanning
- Strategy formulation
- Strategy implementation
- Evaluation and control

Phases of Strategic Management

- Phase 1: Basic financial planning
- Phase 2: Forecast-based planning
- Phase 3: Externally oriented strategic planning
- Phase 4: Strategic management

Benefits of Strategic Management

- The attainment of an appropriate match, or "fit," between an organization's environment and its strategy, structure and processes has positive effects on the organization's performance.
- Strategic planning becomes increasingly important as the environment becomes more unstable.

Benefits of Strategic Management

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- Sharper focus on what is strategically important
- Improved understanding of a rapidly changing environment

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  - the integrated internationalization of markets and corporations
  - has changed the way modern corporations do business

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  - describes new products, services, methods and organizational approaches that allow the business to achieve extraordinary returns
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  - refers to the use of business practices to manage the triple bottom line

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The triple bottom line involves:

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3. the management of its environmental responsibility.

Theories of Organizational Adaptation

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  - once an organization is successfully established in a particular environmental niche, it is unable to adapt to changing conditions
- **Institution theory**
  - organizations can and do adapt to changing conditions by imitating other successful organizations

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Creating a Learning Organization

- **Strategic flexibility**
  - the ability to shift from one dominant strategy to another and requires:
    - Long-term commitment to the development and nurturing of critical resources
    - Learning organization

Creating a Learning Organization

- **Learning organization**
  - an organization skilled at creating, acquiring and transferring knowledge and at modifying its behavior to reflect new knowledge and insights
- Organizational learning is a critical component of competitiveness in a dynamic environment.

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Learning organizations are skilled at four main activities:

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- Strategy formulation
- Strategy implementation
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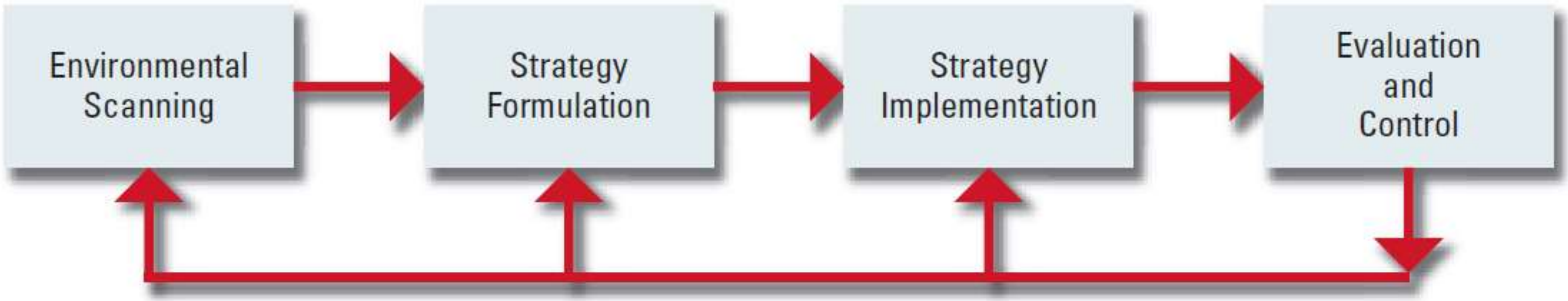
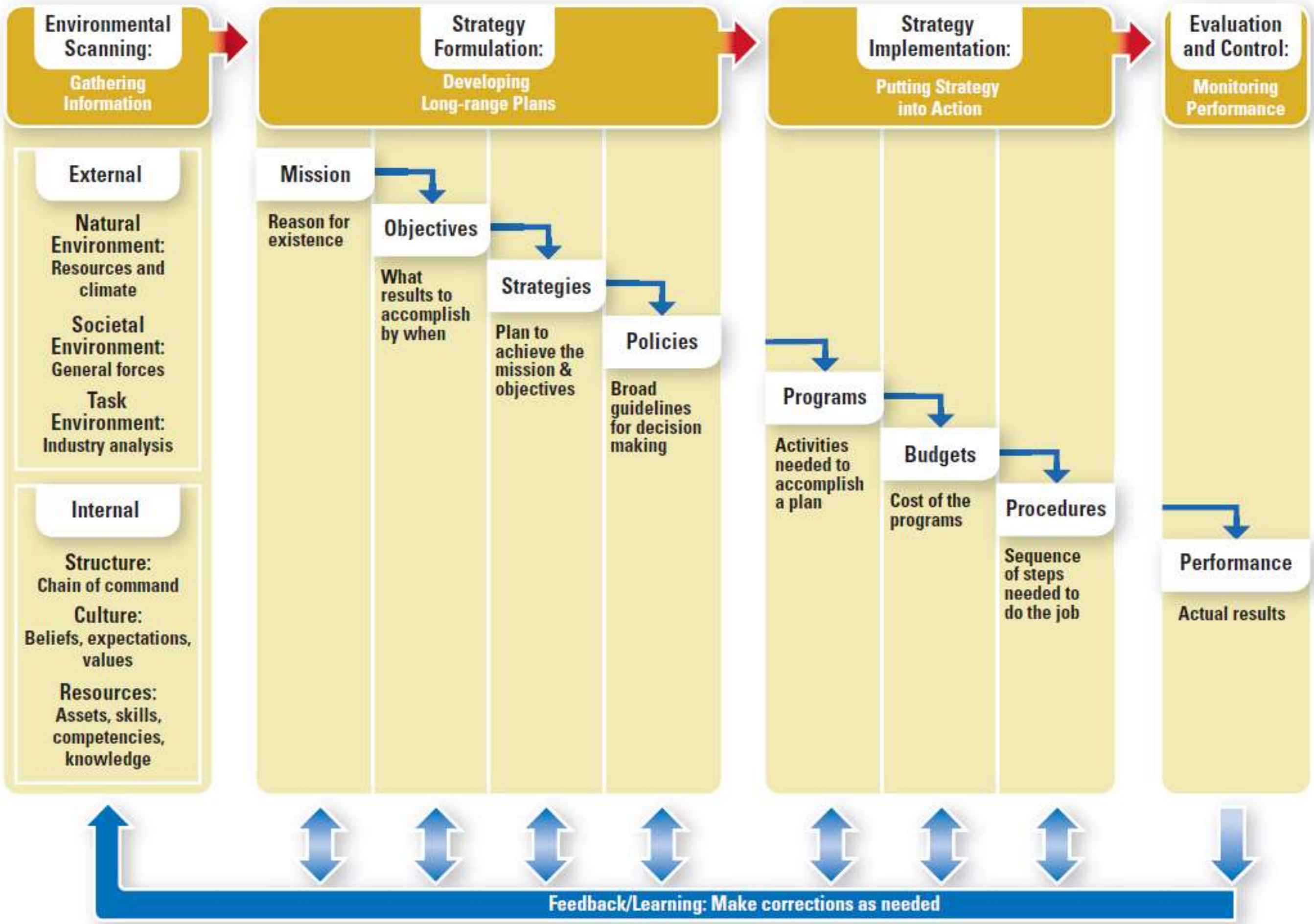
Basic Elements of the Strategic Management Process

Figure 1-1



Strategic Management Model

Figure 1-2



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- **Environmental scanning**
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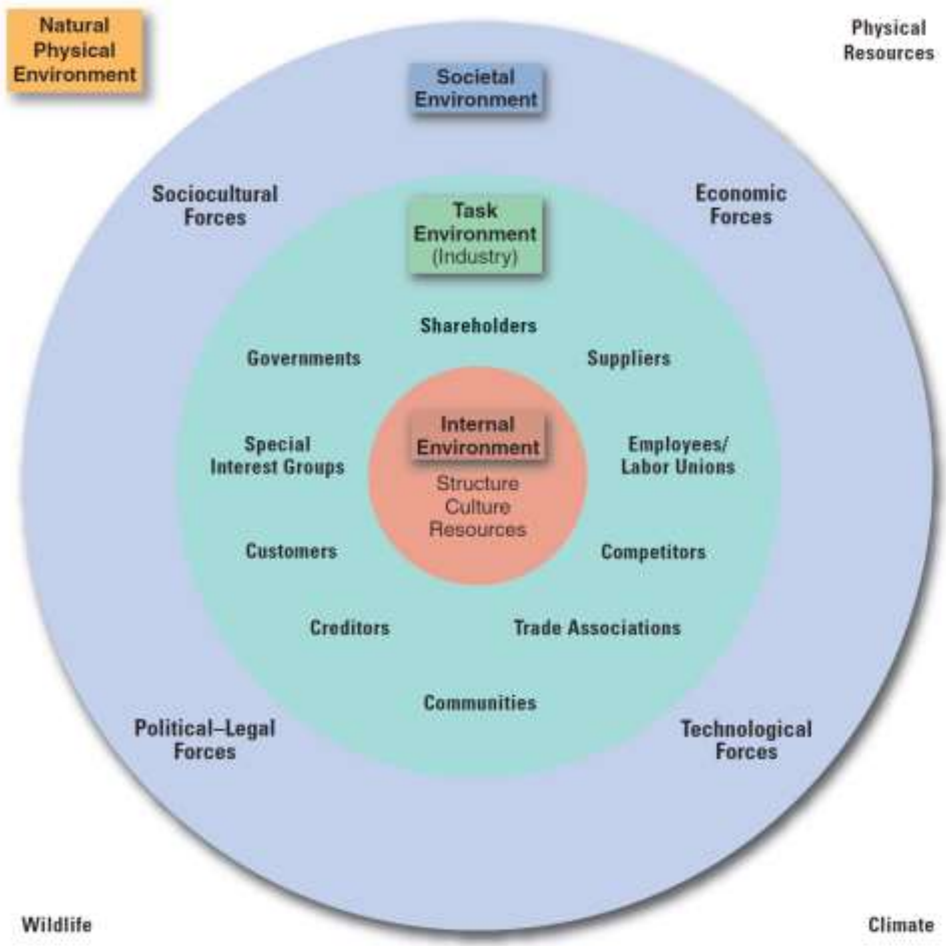
Environmental Variables

Figure 1-3



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  - includes defining the competitive advantages of the business (Strategy), crafting the corporate mission, specifying achievable objectives and setting policy guidelines.

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  - the purpose or reason for the organization's existence
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  - describes what the organization would like to become
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  - forms a comprehensive master approach that states how the corporation will achieve its mission and objectives
  - maximizes competitive advantage and minimizes competitive disadvantage
  - corporate, business, functional

Hierarchy of Strategy

Basic Model of Strategic Management

- **Policy**
  - a broad guideline for decision making that links the formulation of a strategy with its implementation

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  - includes the actual outcomes of the strategic management process
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  - revise or correct decisions based on performance

Initiation of Strategy: Triggering Events

- **Triggering event**
  - something that acts as a stimulus for a change in strategy and can include:
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    - Performance gap
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Mintzberg's Modes of Strategic Decision Making

- Entrepreneurial
- Adaptive
- Planning
- Logical incrementalism

Strategic Decision-Making Process

1. Evaluate current performance results
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3. Scan and assess the external environment
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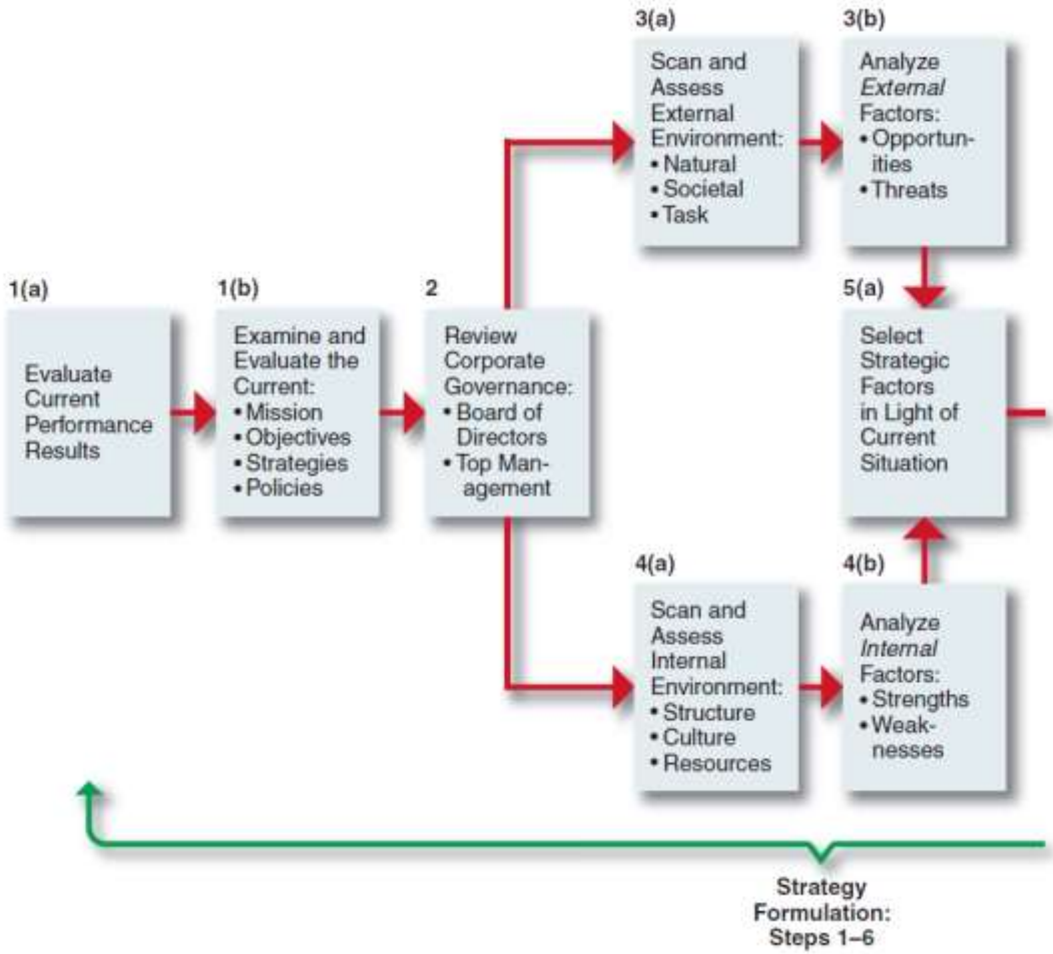
6. Generate, evaluate and select the best alternative strategy
7. Implement selected strategies
8. Evaluate implemented strategies

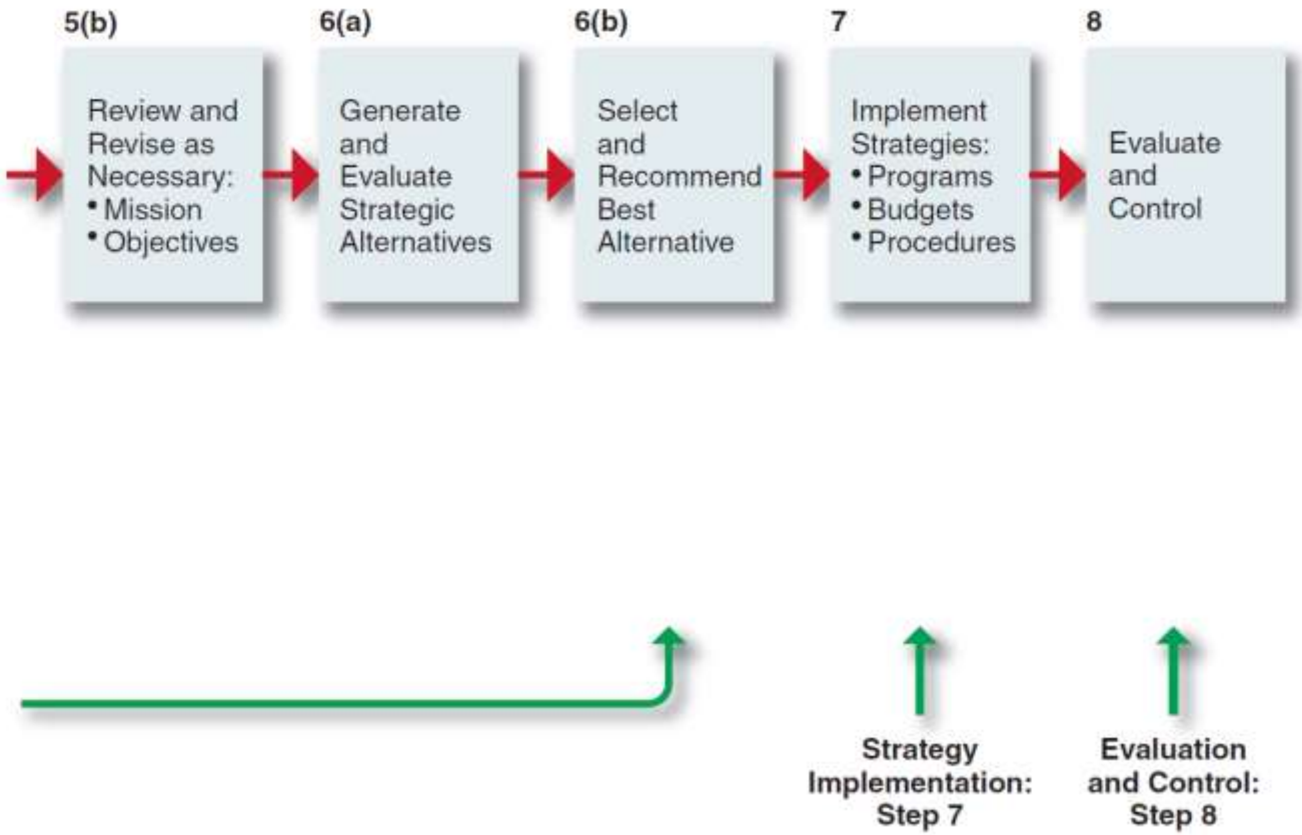
Strategic Decision-Making Process

Figure 1-5



Strategic Decision-Making Process

Figure 1-5

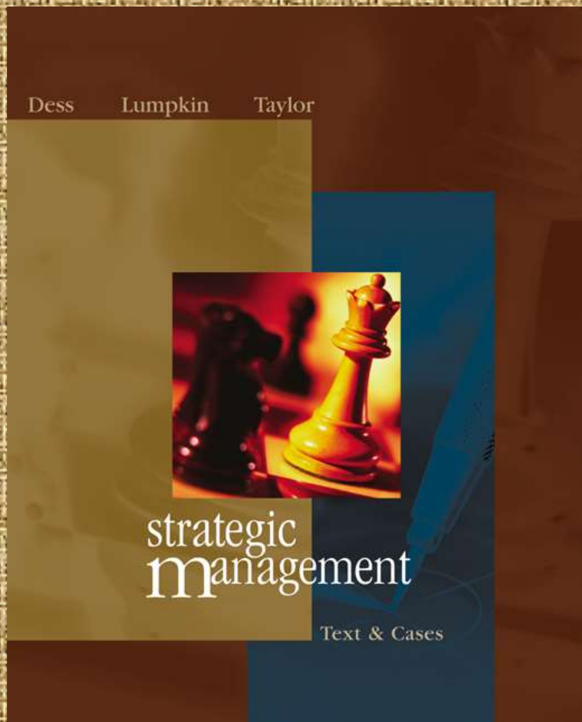


The Strategic Audit: Aid to Strategic Decision Making

- **Strategic audit**
  - provides a checklist of questions, by area or issue, that enables a systematic analysis to be made of various corporate functions and activities


Dess Lumpkin Taylor
strategic management
Text & Cases

Chapter 4



Recognizing a Firm's Intellectual Assets: *Moving Beyond A Firm's Tangible Resources*

McGraw-Hill/Irwin

Learning Objectives

After studying this chapter, you should have a good understanding of:

- Why the management of knowledge professionals and knowledge itself is so critical in today's organizations
- The importance of recognizing the interdependence of attracting, developing, and retaining human capital
- The key role of social capital in leveraging human capital within and across the firm
- Why teams are critical in combining and leveraging knowledge in organizations and how they can be made more effective
- The vital role of technology in leveraging knowledge and human capital
- How technology can help to retain knowledge even when employees cannot be retained by the organization
- How leveraging human capital is critical to strategy

Exhibit 4.1

Ratio of Market Value to Book Value for Selected Companies

Company	Annual Sales ($billions)	Market Value ($billions)	Book Value ($billions)	Ratio of Market To Book Value
Ebay	.4	13.9	.9	15.4
Oracle	10.9	80.7	6.5	12.4
Microsoft	25.3	327.4	41.4	7.9
Intel	33.7	177.0	32.5	5.4
Nucor (Steel)	4.6	3.3	2.2	1.5
General Motors Corp.	184.6	30.5	20.6	1.5
Goodyear Tire & Rubber Co.	14.4	3.0	3.6	.83

Note: The data on market valuations are as of November 5, 2001. All other financial data is based on the most recently available balance sheets and income statements.

The Factors of Production

- **Land**
- **Labor**
- **Capital, and**
- ***Knowledge***

Components of Intellectual Capital

- **Human Capital**

The individual skill sets and work-related capabilities of employees

The values and attitudes of individual employees

Unique resources

- **Social Capital**

The formal and informal relationships within the firm

Interaction, sharing and collaboration

Allows the firm to combine and leverage its human capital

Unique bundles of resources

Exhibit 4.2

Human Capital: Three Interdependent Activities

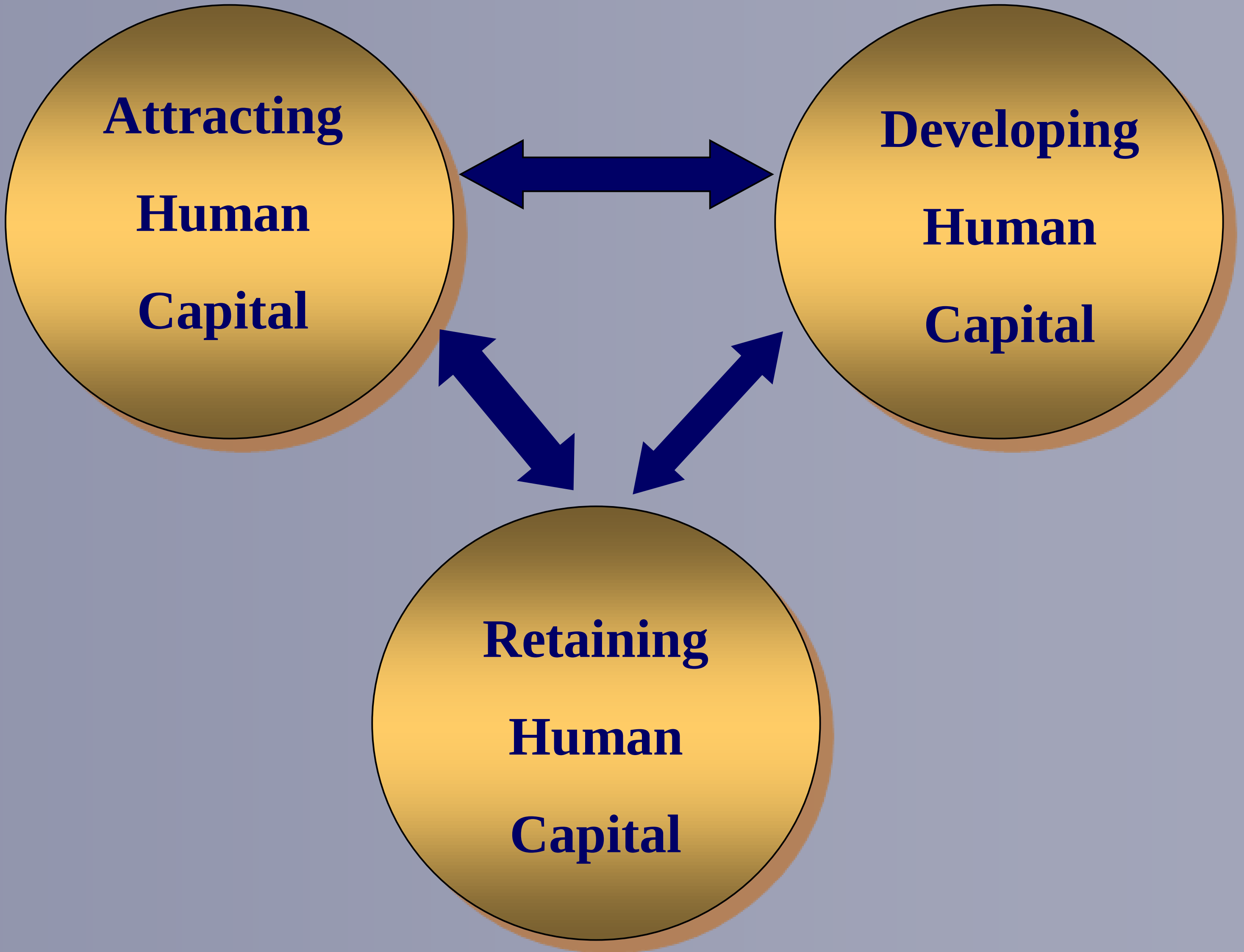


Exhibit 4.3

An Excerpt From GE's 360-Degree Leadership Assessment Chart

Vision

- **Has developed and communicated a clear, simple, customer-focused vision/direction for the organization.**
- **Forward-thinking, stretches horizons, challenges imaginations.**
- **Inspires and energizes others to commit to Vision. Captures minds. Leads by example.**
- **As appropriate, updates Vision to reflect constant and accelerating change affecting the business.**

Customer/Quality Focus

Integrity

Accountability/Commitment

Communication/Influence

Shared Ownership/Boundary-less

Team Builder/Empowerment

Knowledge/Expertise/Intellect

Initiative/Speed

Global Mind-Set

Note: This evaluation system consists of ten "characteristics" – Vision, Customer/Quality Focus, Integrity, and so on. For each of these characteristics there are four "performance criteria." For illustrative purposes, the four performance criteria for "Vision" are included.

Source: Adapted from Slater, R. 1994. *Get Better or Get Beaten*. Burr Ridge, IL: Irwin Professional Publishing; 152-155.

Exhibit 4.4

(adapted)

Employee Benefits at Leading-Edge Firms

MBNA (Wilmington, Del.) This credit card issuer is proud of its beautiful facilities with on-site day care, dry cleaning, shoe repair, and beauticians. When an employee's child is born or if they adopt, MBNA contributes $2,500 toward his/her education.

SAS Institute (Cary, N.C.): SAS offers a 35-hour week, childcare for $250 a month, a free on-site medical clinic, and twelve holidays a year, plus a paid week off between Christmas and New Year's.

Sources: Branch, S. 1999. The 100 best companies to work for in America, *Fortune*, January 11:118-114; Bennett, S. 2000. *Working Woman*: September, 46.

Exhibit 4.5

(adapted)

Microsoft Employees Who Have Left the Company for Other Businesses

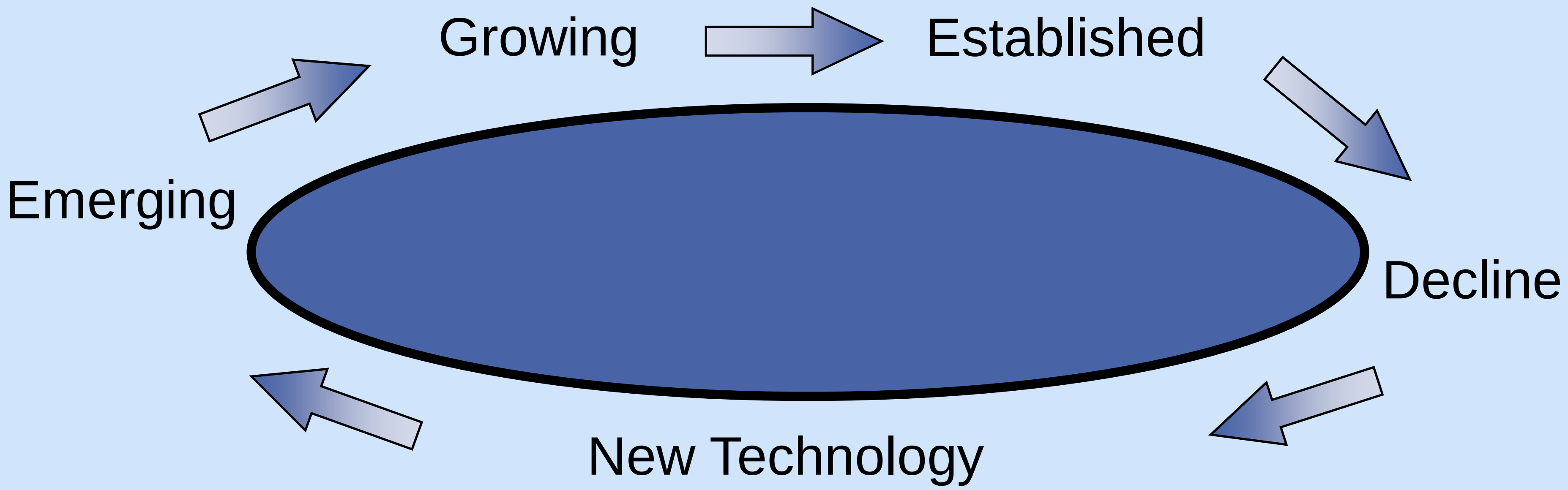
COMPANY	WHAT IT DOES	DEFECTORS FROM MICROSOFT
Crossgain	Builds software around XML computer language	23 of 60 employees
Check Space	Builds online payment service for small businesses	Company says 'a good chunk' of its 30 employees
Avogadro	Builds wireless notification software	Eight of 25 employees

Source: Buckman, R. 2000. Tech defectors from Microsoft resettle together. *Wall Street Journal*, October 16: B6.

Industry Life Cycle & Value Chain

- Industry life cycle
- Industry structure
- The environment of the industry
- The competitive environment
- Competitive strategy

Industry Life Cycle

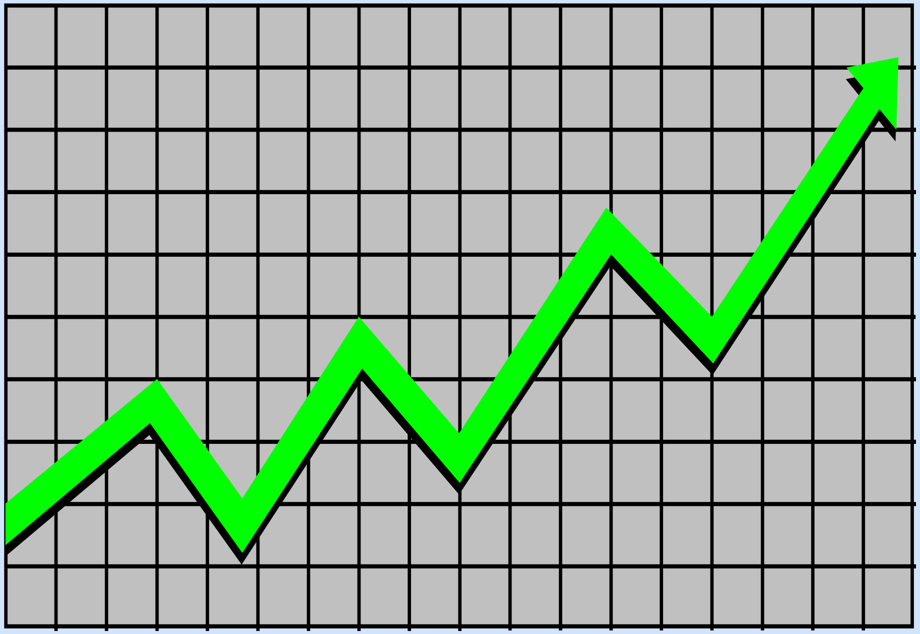


Industry Structure

- Threat of new entrants
  - Economies of scale
  - Brand loyalty
- Threat from substitute products
- Threat from buyers’ bargaining power
- Threat from suppliers’ bargaining power
- Rivalry among existing firms
- Threat of technology

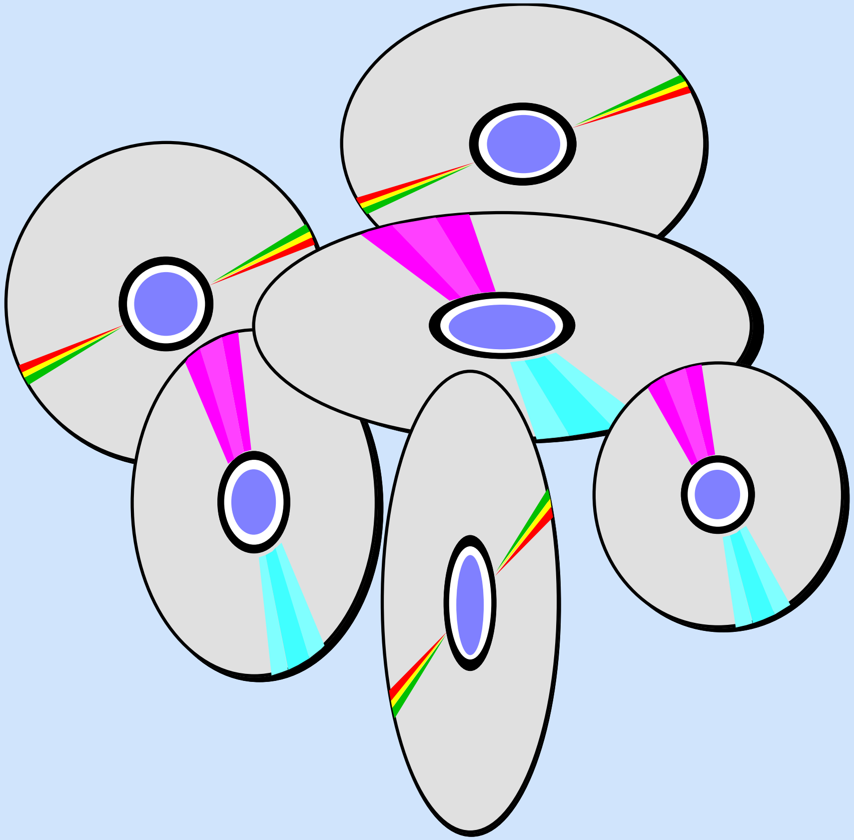
What Do You Want to Know?

- Is the industry growing?
- What are the trends?
- Are there young, successful firms in the industry?



More Things to Know

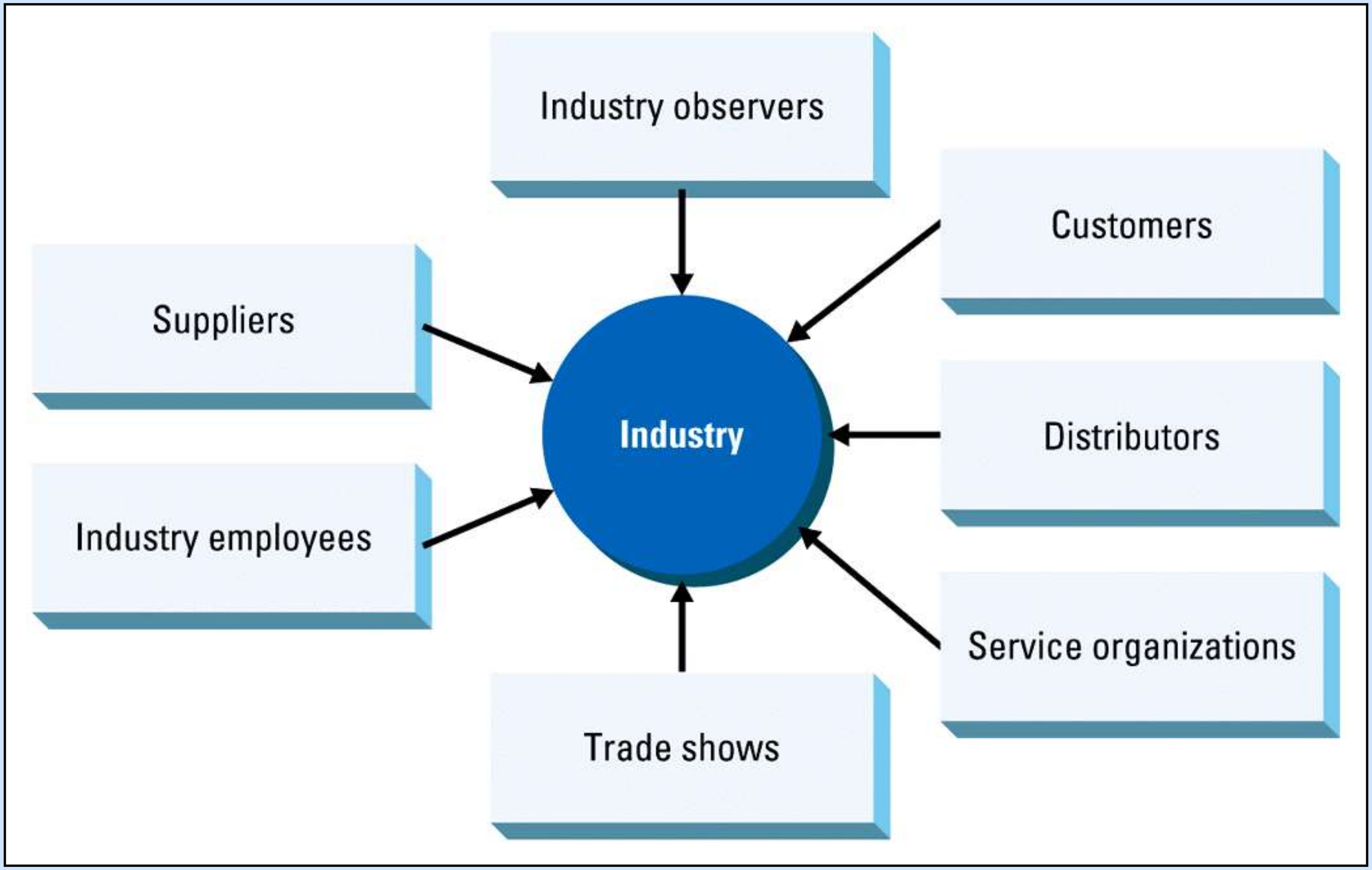
- What is the status of new technology?
- How much is spent on R&D?
- Are there any threats?
- What are the gross margins?



Industry Analysis–The Environment

- Carrying capacity
- Dynamism
- Complexity

Sources of Field Data on the Industry



Understand Competitive Strategies in the Industry

- Cost superiority
- Differentiation
  - Product
  - Service
  - Distribution
- Niche

Identifying the Competition

- Direct competitors
- Indirect or substitute competitors
- Emerging competitors

Competitor Analysis

- Identify competitors' core competency
  - Differentiates
  - Provides competitive advantage
  - Transferable to other business
- Is often not the logical competency

What You Have to Do

- Determine what your competitor has to do to be successful in its own core business
- Determine which of the competencies it has that are transferable to your business
- Determine whether it has a strong competency in those particular areas relative to your own company

Value Chain Analysis

- Each activity in a business adds value
  - If an activity does not add value, it should be discontinued
- Control and protect the activities that add the greatest value
- Good for comparing two companies

Patent Citation Analysis

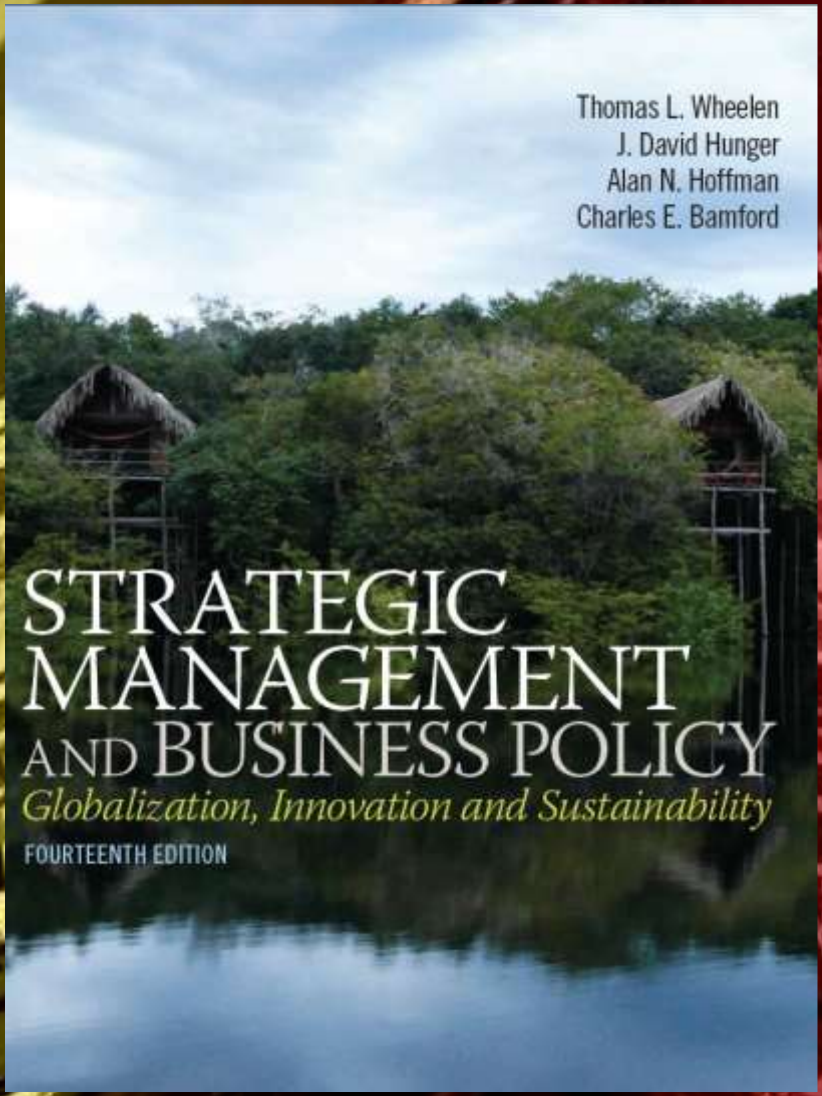
- You can develop useful intelligence from looking at your competitor’s patents
- A stream of patents assigned to a company can reveal a strategy

Competitive Entry Strategies

- Cost Superiority
  - Difficult for a new venture
- Differentiation
  - Through product/process innovation or a unique marketing or distribution strategy
- Niche Strategy
  - Focus on a customer group or need that is not being served

The Ideal Industry

- Over Rs 100 Crore in sales
- Growing at a rate greater than the GNP
- After-tax profits of greater than 5 percent of sales within 3–5 years
- Socially and environmentally responsible



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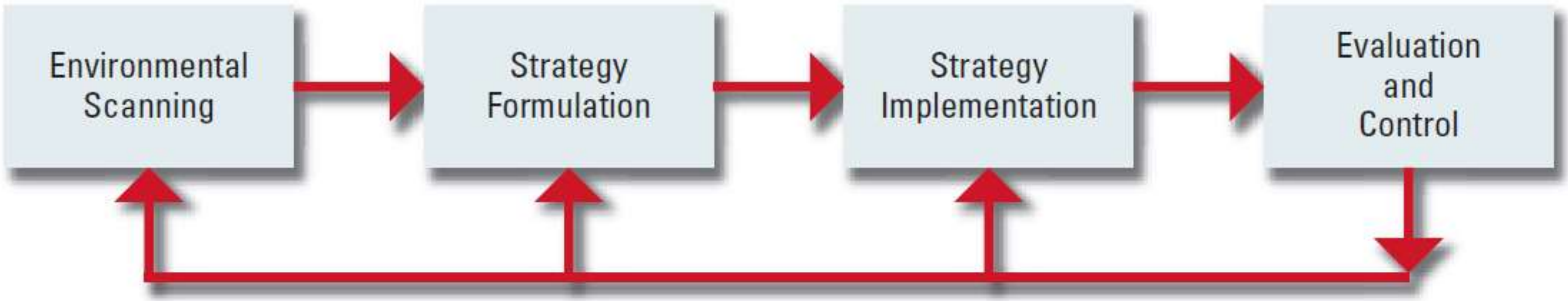

Strategic Management Model

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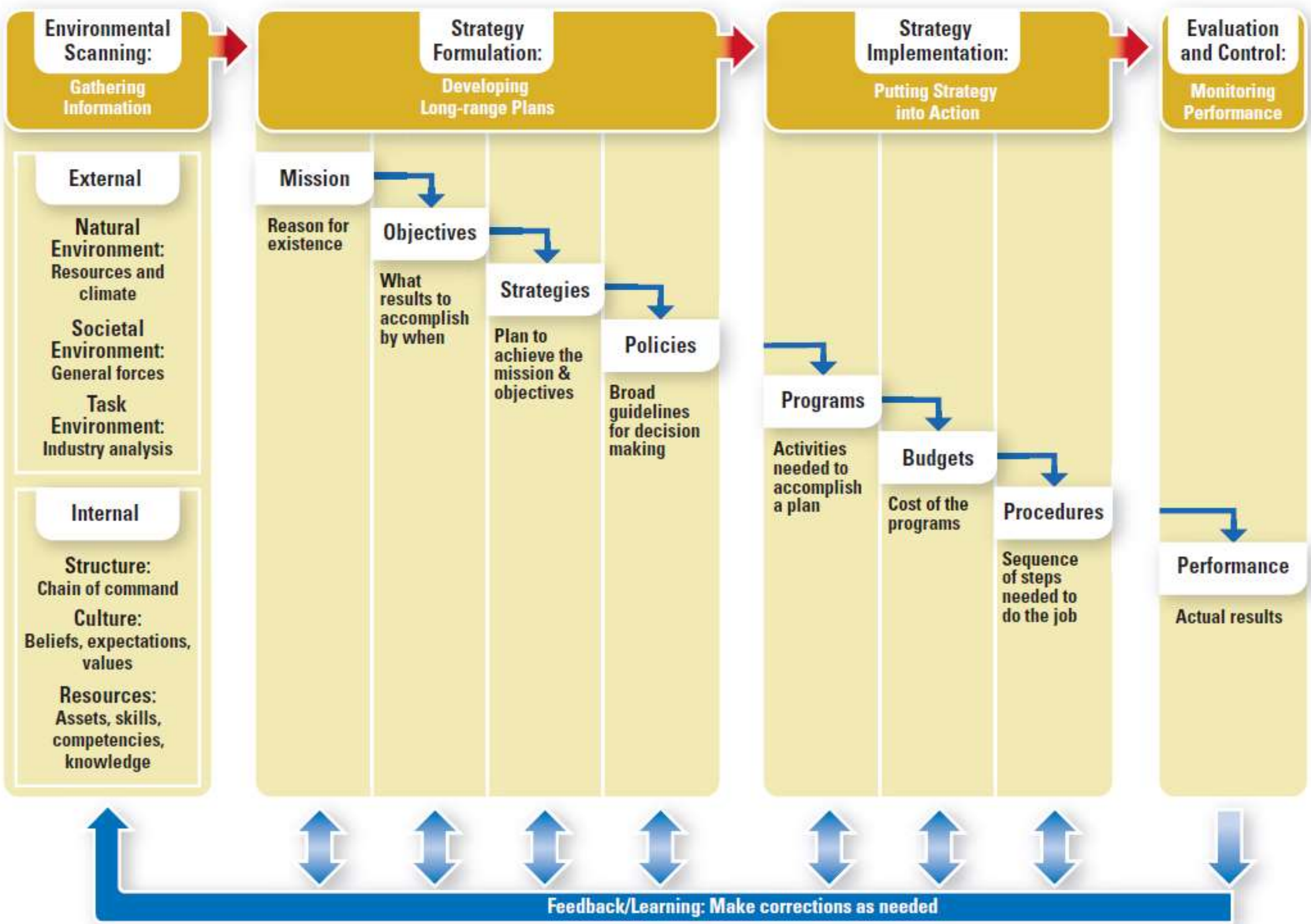

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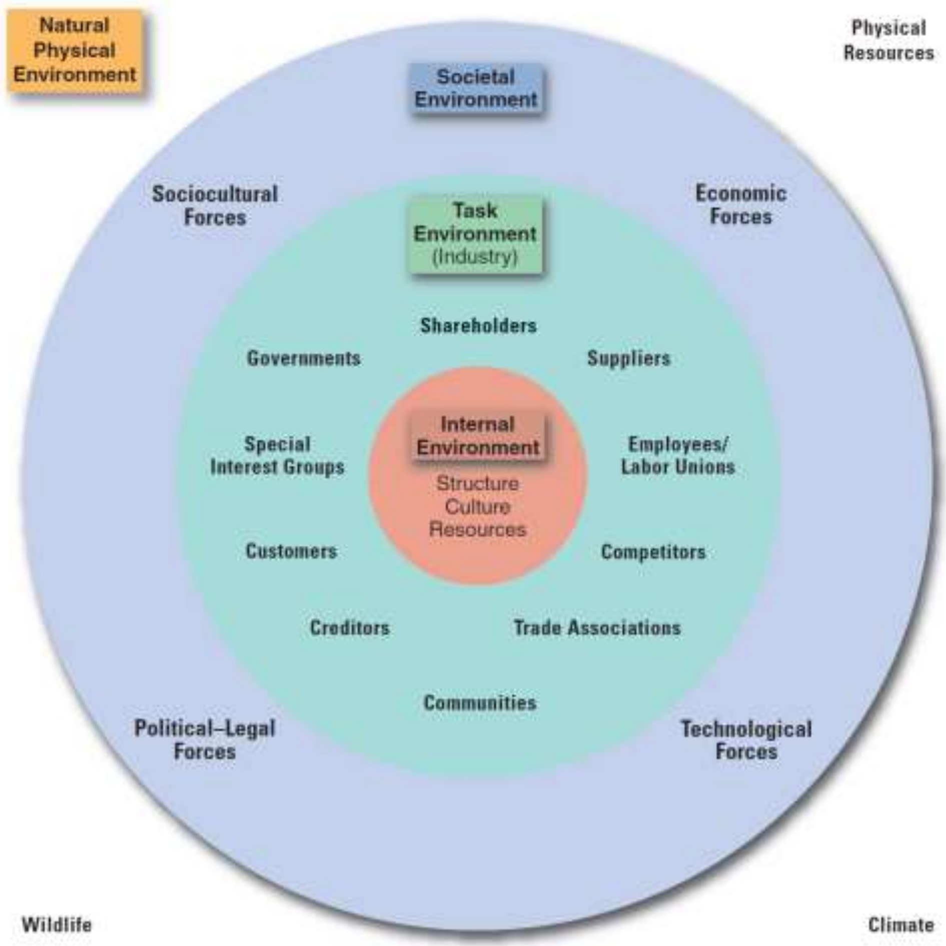

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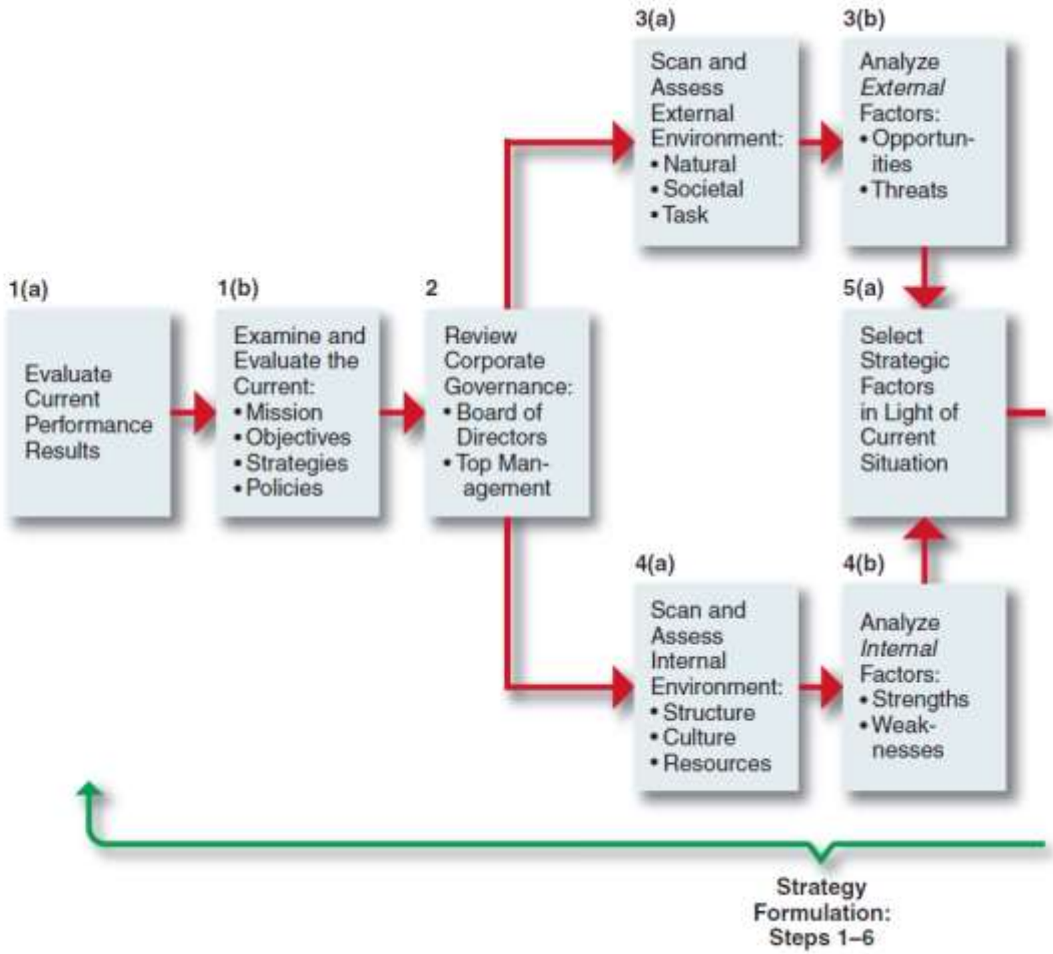

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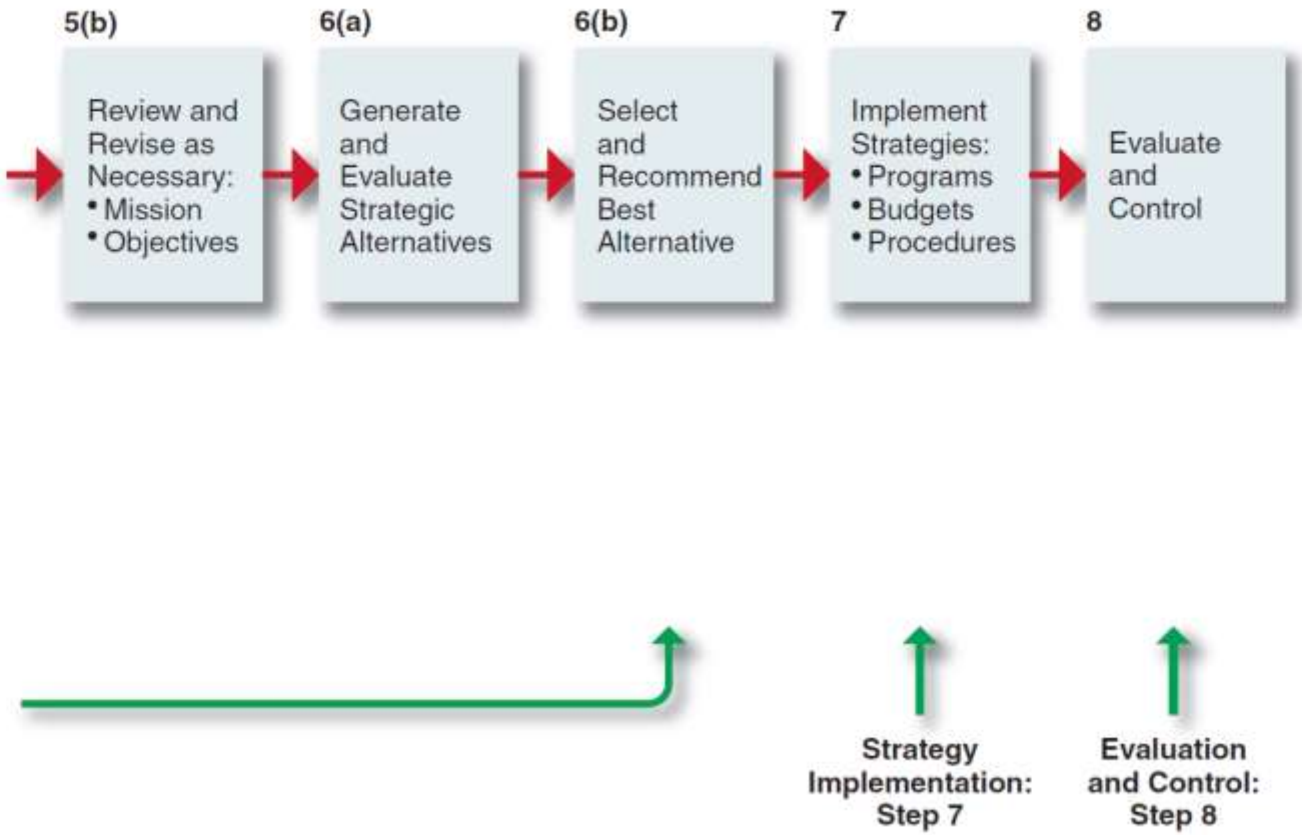

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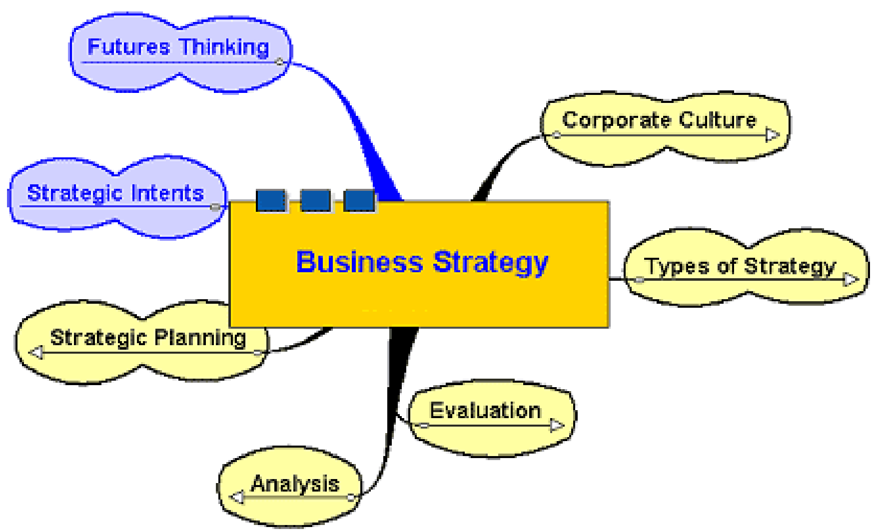
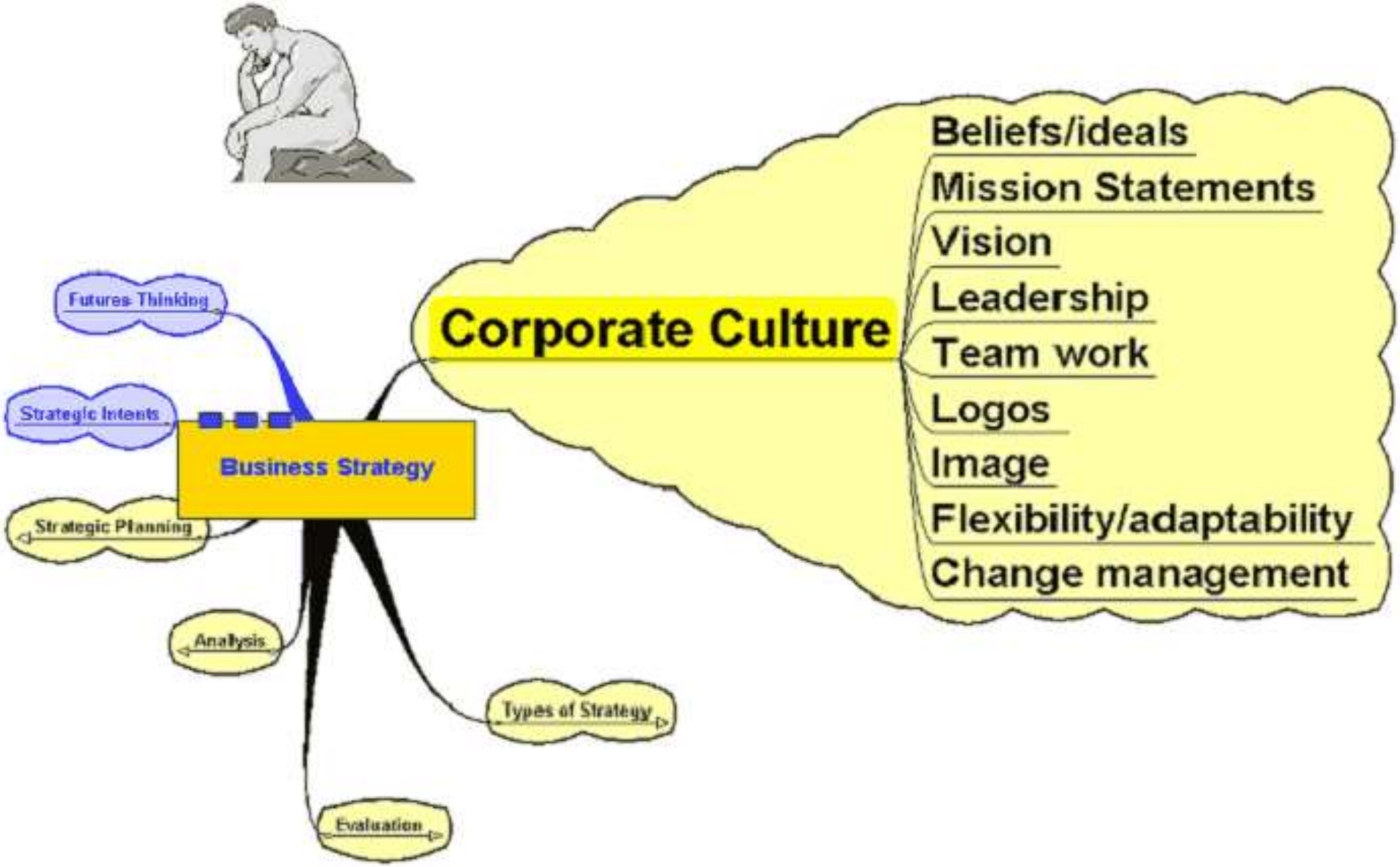


Corporate Culture



Corporate Culture

- The beliefs and values shared by people who work in an organisation
  - How people behave with each other
  - How people behave with customers/clients
  - How people view their relationship with stakeholders
  - People's responses to energy use, community involvement, absence, work ethic, etc.
  - How the organisation behaves to its employees – training, professional development, etc.

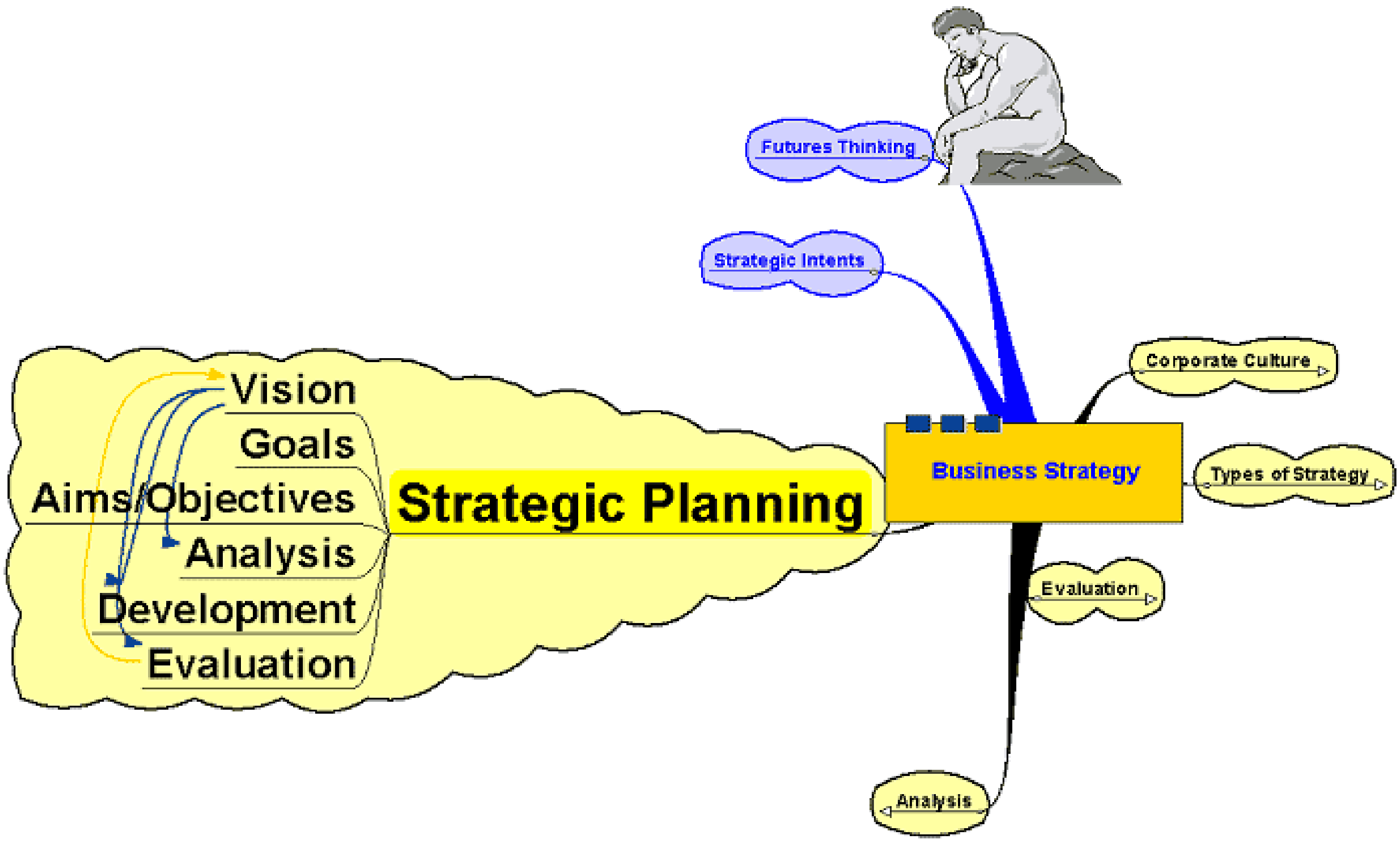
Corporate Culture

- May be driven by:
- **Vision** – where the organisation wants to go in the future
- **Mission Statement** – summary of the beliefs of the organisation and where it is now

Corporate Culture

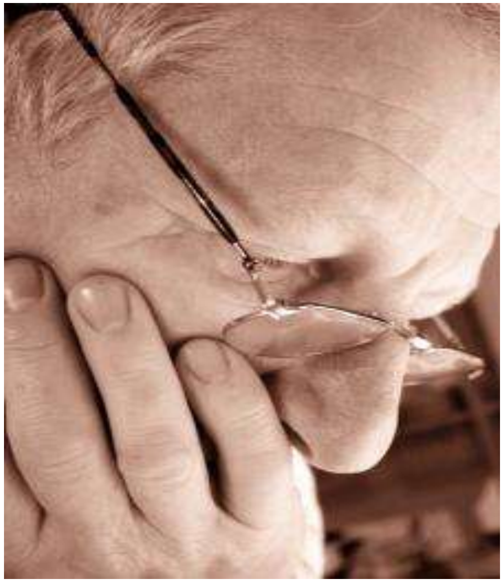
- **May be reflected in:**
  - Attitude and behaviour of the leadership
  - Attitude to the role of individuals in the workplace – open plan offices, team based working, etc.
  - Logo of the organisation
  - The image it presents to the outside world
  - Its attitude to change

Strategic Planning



Strategic Planning

- First Stage of Strategic Planning may involve:
- Futures Thinking
  - Thinking about what the business might need to do 10–20 years ahead
- Strategic Intents
  - Thinking about key strategic themes that will inform decision making
- "The thicker the planning document, the more useless it will be"
  - (Brent Davies: 1999)



Taking time to think and reflect may be more important than many businesses allow time for!

Strategic Planning

- **The Vision**
  - Communicating to all staff where the organisation is going and where it intends to be in the future
  - Allows the firm to set goals
- **Aims and Objectives:**
  - **Aims** – long term target
  - **Objectives** – the way in which you are going to achieve the aim

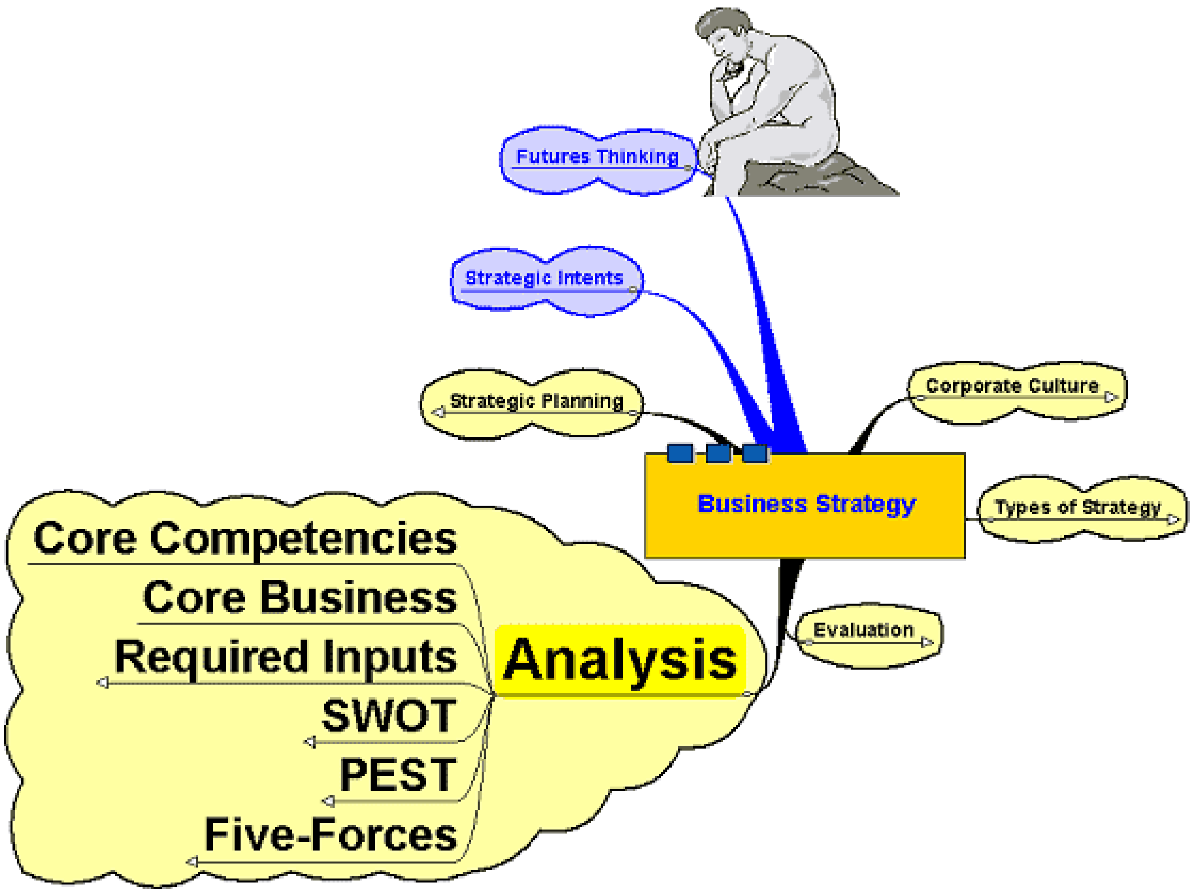
Strategic Planning

- Example:
- **Aim** may be for a chocolate manufacturer to break into a new overseas market
- **Objectives:**
  - Develop relationships with overseas suppliers
  - Identify network of retail outlets
  - Conduct market research to identify consumer needs
  - Find location for overseas sales team HQ

Strategic Planning

- Once the direction is identified:
- ✓ Analyse position
- ✓ Develop and introduce strategy
- ✓ Evaluate:
  - Evaluation is constant and the results of the evaluation feed back into the vision

Analysis


Futures Thinking
Strategic Intents
Strategic Planning
Corporate Culture
Business Strategy
Types of Strategy
Evaluation
Core Competencies
Core Business
Required Inputs
Analysis
SWOT
PEST
Five-Forces

SWOT

- **Strengths** – identifying existing organisational strengths
- **Weaknesses** – identifying existing organisational weaknesses
- **Opportunities** – what market opportunities might there be for the organisation to exploit?
- **Threats** – where might the threats to the future success come from?

PEST

- **Political:** local, national and international political developments – how will they affect the organisation and in what way/s?
- **Economic:** what are the main economic issues – both nationally and internationally – that might affect the organisation?
- **Social:** what are the developing social trends that may impact on how the organisation operates and what will they mean for future planning?
- **Technological:** changing technology can impact on competitive advantage very quickly!

PEST

- Examples:
- Growth of China and India as manufacturing centres
- Concern over treatment of workers and the environment in less developed countries who may be suppliers
- The future direction of the interest rate, consumer spending, etc.
- The changing age structure of the population
- The popularity of 'fads' like the Atkins Diet
- The move towards greater political regulation of business
- The effect of more bureaucracy in the labour market

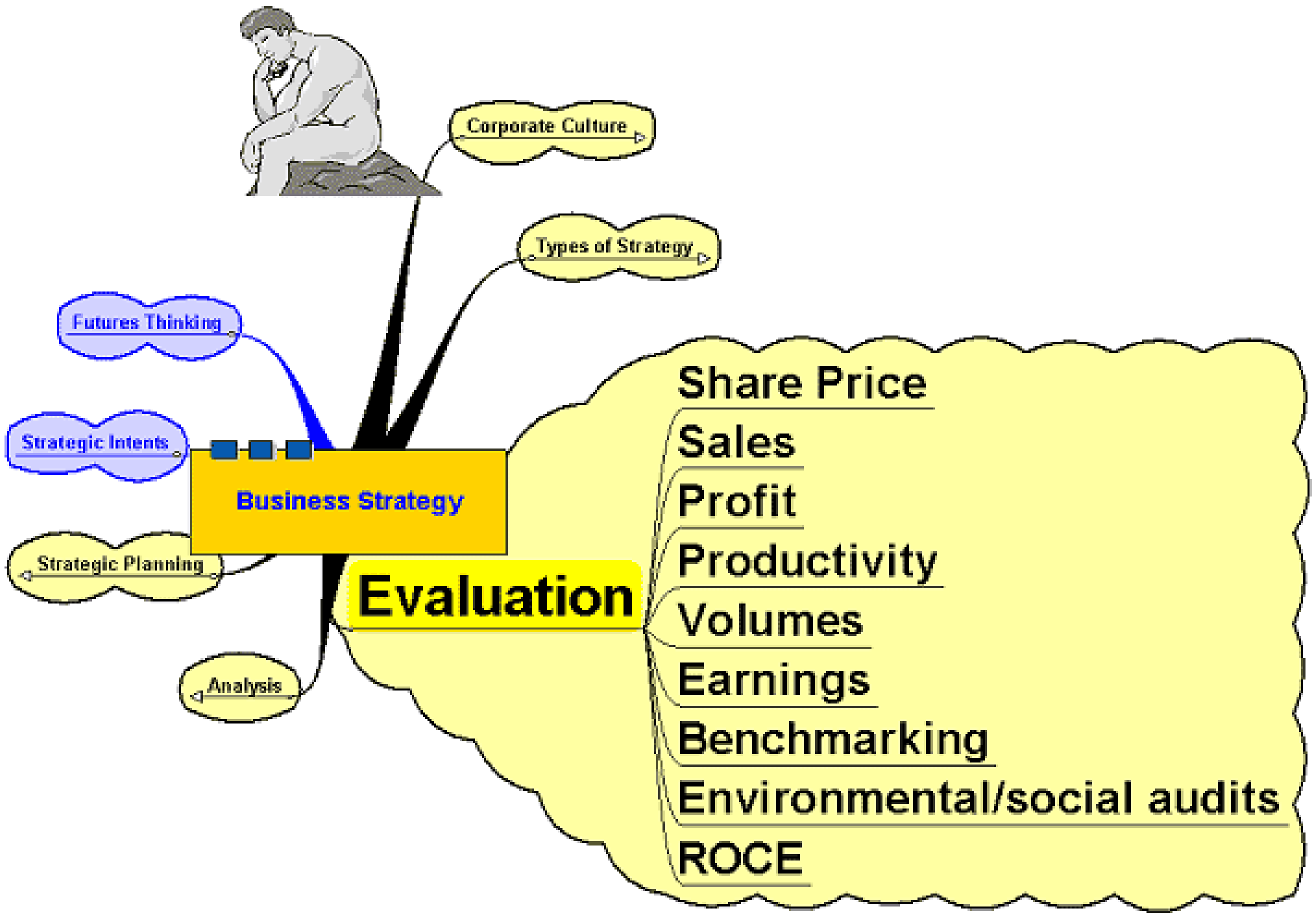
Five-Forces

- **Developed by Michael Porter: forces that shape and influence the industry or market the organisation operates in.**
  - **Strength of Barriers to Entry** - how easy is it for new rivals to enter the industry?
  - **Extent of rivalry between firms** – how competitive is the existing market?
  - **Supplier power** – the greater the power, the less control the organisation has on the supply of its inputs.
  - **Buyer power** – how much power do customers in the industry have?
  - **Threat from substitutes** – what alternative products and services are there and what is the extent of the threat they pose?

Required Inputs

- Changing strategy will impact on the resources needed to carry out the strategy:
- Specifically the impact on:
  - Land – opportunities for acquiring land for development – green belt, brownfield sites, planning regulations, etc.
  - Labour – ease of obtaining the skilled and unskilled labour required
  - Capital – the type of capital and the cost of the capital needed to fulfil the strategy

Evaluation


Corporate Culture
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Profit
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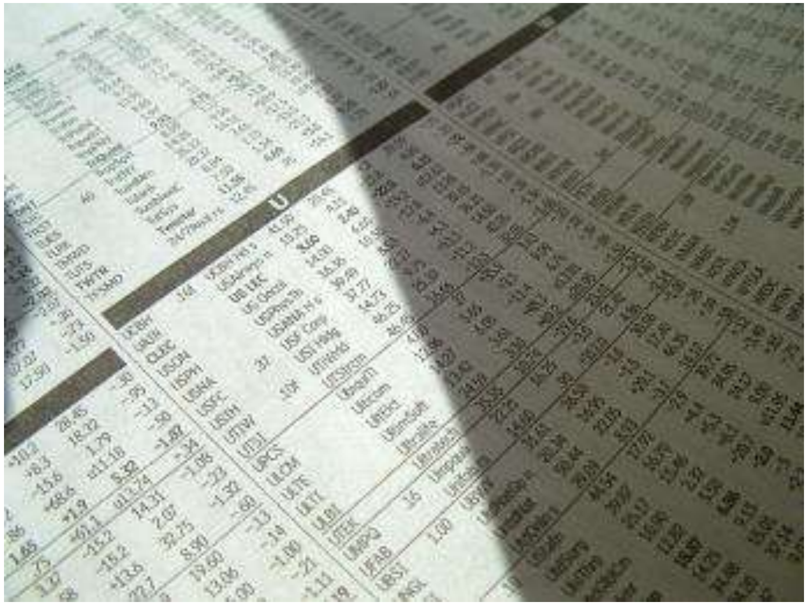
Earnings
Benchmarking
Environmental/social audits
ROCE

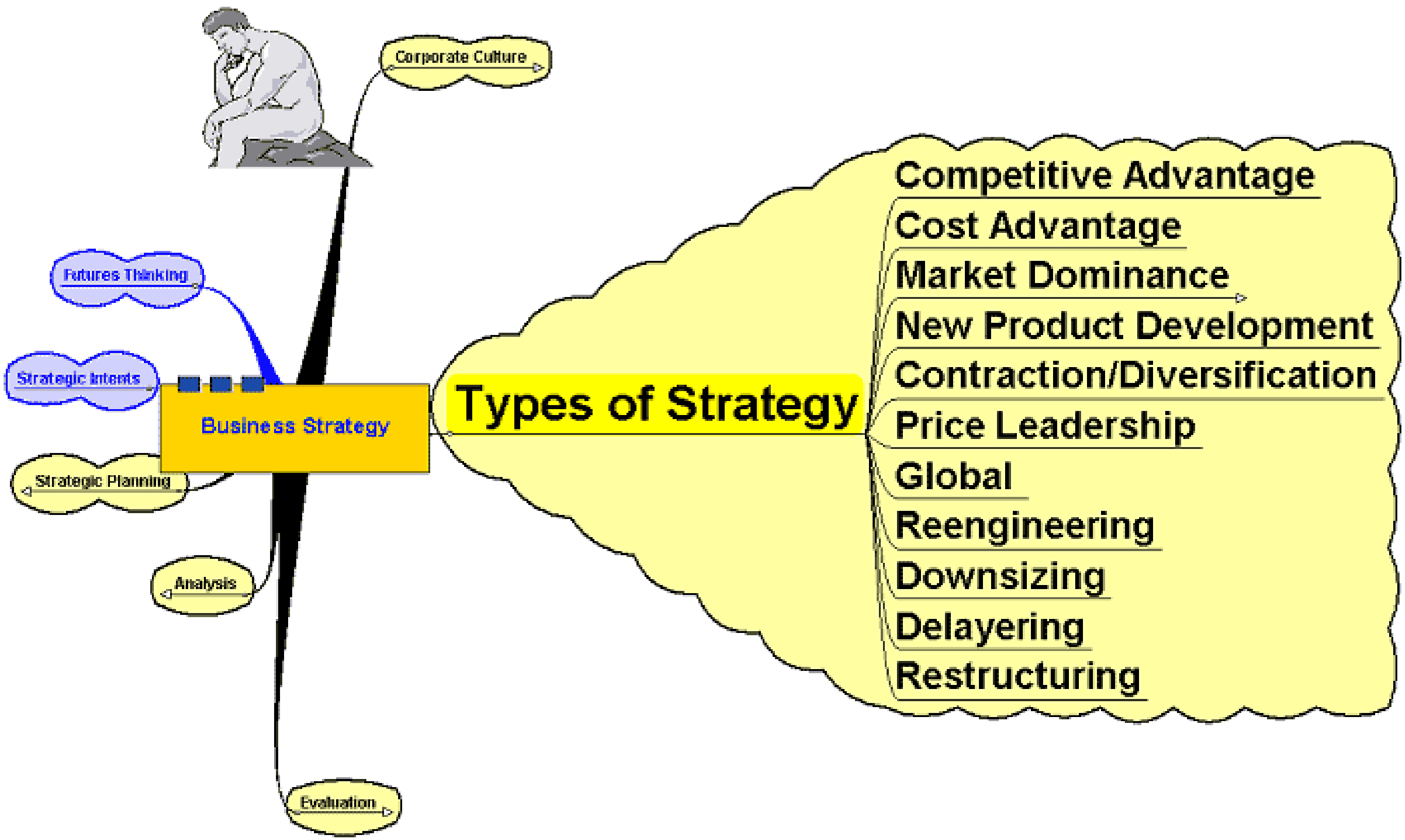
Evaluation

- Data from sales, profit, etc. used to evaluate the progress and success of the strategy and to inform of changes to the strategy in the light of that data



Information from a wide variety of sources can help to measure and inform the impact and direction of the strategy.

Types of Strategy



Types of Strategy

- **Competitive Advantage** – something which gives the organisation some advantage over its rivals
- **Cost advantage** – A strategy to seek out and secure a cost advantage of some kind - lower average costs, lower labour costs, etc.

Types of Strategy

- **Market Dominance:**
- Achieved through:
  - Internal growth
  - Acquisitions – mergers and takeovers
- **New product development:** to keep ahead of rivals and set the pace
- **Contraction/Expansion** – focus on what you are good at (core competencies) or seek to expand into a range of markets?

Types of Strategy

- **Price Leadership** – through dominating the industry – others follow your price lead
- **Global** – seeking to expand global operations
- **Reengineering** – thinking outside the box – looking at news ways of doing things to leverage the organisation’s performance

Types of Strategy

- Internal business level strategies –

- **Downsizing** – selling off unwanted parts of the business – similar to contraction
- **Delayering** – flattening the management structure, removing bureaucracy, speed up decision making
- **Restructuring** – complete re-think of the way the business is organised

Business Strategy – Concept & Trends in Management

Strategic Management is a set of managerial decisions and action that determines the long term performance of an organisation.

It includes :

a) Environmental scanning (External + Internal)
b) Strategy Formulation
c) Strategy Implementation
d) Evaluation & Control

STRATEGIC CHOICE – MAXIMUM ADVANTAGES & MINIMUM DISADVANTAGES

- Types of Strategy :

a) Corporate Strategy
b) Business Strategy
c) Functional Strategy

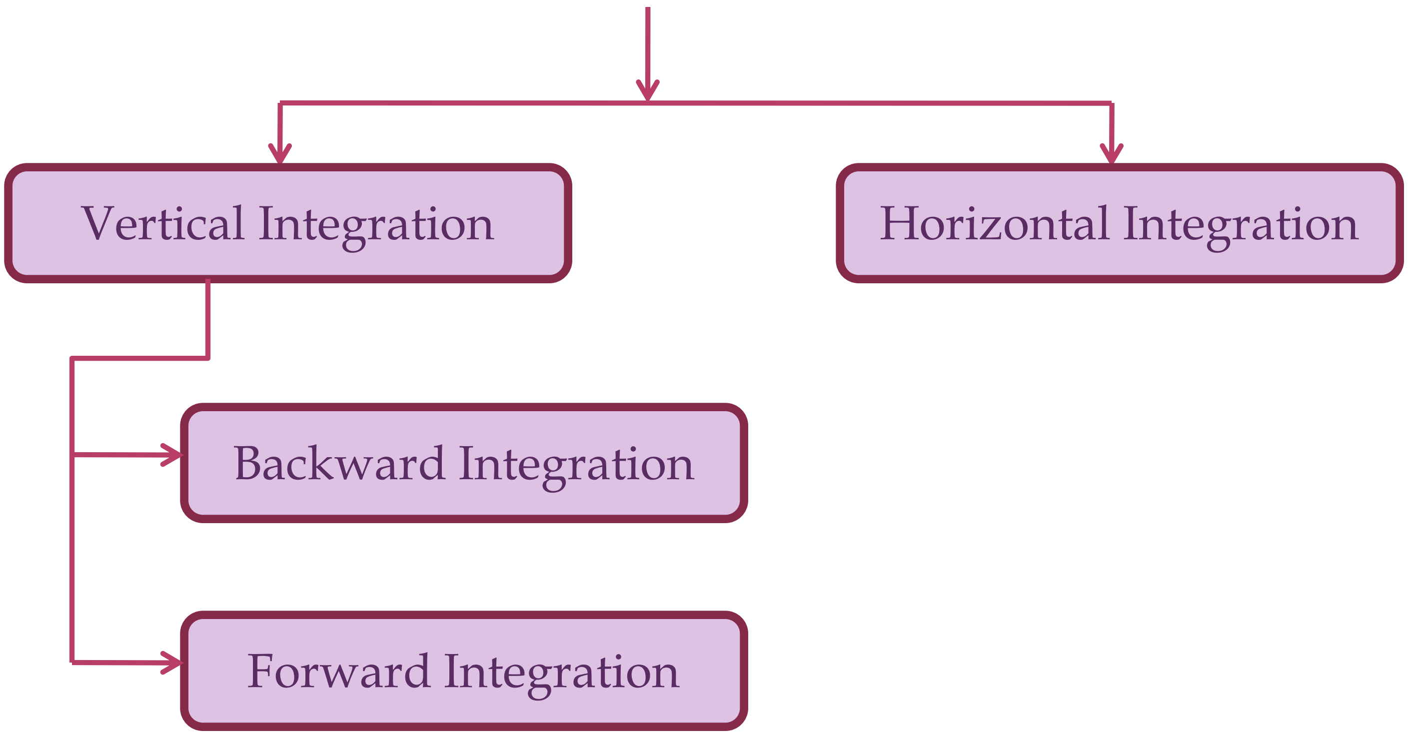
d) <u>Directional Strategy</u> :

i. Growth, merger, acquisition

ii. Stability

iii. Retrenchment

iv. Concentration Strategies



e) <u>Stability Strategies</u> :
   i. Pause & Proceed
   ii. Status-quo
   iii. Profit

f) Corporate Parenting

STRATEGY IMPLEMENTATION

a) Developing Program, Budget & Procedure
b) Synergy achievement
c) Staffing
d) Training
e) Leading
f) Succession

MARKETING STRATEGY

Marketing Strategy is a process that can allow an organisation to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage.

Developing Marketing Strategy :

1) To fill market needs
2) Scanning of marketing environment
3) Create needs
4) Time horizons to cover marketing plan

TYPES OF STRATEGIES
TO DOMINATE MARKET

1) Leader
2) Challenger
3) Follower
4) Innovation
5) Growth

THANK YOU

RELATIONSHIP MARKETING

1) Attraction of new customer as only intermediate step in marketing process.
2) Solidifying relationship.
3) Transforming indifferent customers in loyal ones.
4) Serving customer as clients.

INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT

INTERNAL ENVIRONMENT

- These are factors from inside the firm that could affect performance.

1. **Finance Available** – without money the firm may not be able to do what they wish.
2. **Ability of Staff** – the more capable staff are the more productive they will be.
3. **Information Available** – the better the information the better the decisions made.

4. **ICT Availability** – this can influence the quality and quantity of what is produced

5. **Ability of Management** – good managers will make good decisions

6. **Changes in Costs** – increases in wages or raw materials can affect the profitability of the firm

EXTERNAL ENVIRONMENT

- This is summarised as:

- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **E**nvironmental
- **C**ompetitive

POLITICAL

- Laws passed in the UK and the EU can affect the what a business does.

- E.g. shops are not allowed to sell alcohol on Sunday mornings or the smoking ban in public places.

- Failure to follow laws will result in fines.

- Other ways the government can influence is through setting taxation rates and investment in infrastructure.

ECONOMIC

- This includes changes in interest rates, exchange rates, inflation and the economic cycle.

- If interest rates are high this could stop firms from borrowing money also customers are less likely to borrow or use credit cards to make purchases.

- If the pound is high against other currencies this makes it hard to export goods abroad, reducing the number of sales.

- If inflation is high, the prices of raw materials can be expensive which can reduce profits.

- If the economy is in recession, people tend to be unemployed or worried about losing their job, therefore not spending money on luxury goods.

SOCIAL

- **DEMOGRAPHIC CHANGES**
- This is to do with the size and distribution of the population of a country.
- E.g. The UK has an ageing population, this has led to a rise in products aimed at older people (SAGA) and firms recruiting older workers (B&Q)

- **SOCIO-CULTURAL CHANGES**
- This is about changes in lifestyle and attitude.
- E.g. More women working has seen a rise in ready meal and later opening hours
- More concern about the environment, forcing firms to maybe use recycled products.
- People have more leisure time, changes in attitude to single mothers have also affected the types of products offered.

TECHNOLOGICAL

- Firms need to keep up-to-date with the latest technology in order to remain competitive.
- Have seen a huge growth in e-commerce (buying and selling online)
- Use of machinery in the production process – more efficient and cheaper.

ENVIRONMENTAL

- Firms are aware that they have to be more environmentally friendly, not only because that is what customers want, but can be forced by the government to do so.

- It can also include storms, floods, noise. All these can affect how a business operates.

COMPETITIVE

- What the competition is doing can affect how a business operates.
- Firms now not only face domestic competition but also foreign.
- Have to keep up or be better than your competition to keep your customers.