INTERNATIONAL BUSINESS MANAGEMENT
Certified Master Core Business Skills

A GUIDE TO REVEAL FUNDAMENTAL AND TECHNICAL ANALYSIS IN BUSINESS

Ahmed H. H. Mansoor

INTERNATIONAL BUSINESS MANAGEMENT

To my parents with respect & love

Preface

INTERNATIONAL BUSINESS MANAGEMENT

Different nations all over the world are experiencing an essential change in the way they deliver and market various items, *products* and services. The national economies that were accomplishing the objective of self-sustainability are currently developing route towards International Business. The factor for this crucial change is the development of correspondence, innovation, communication, infrastructure and so on. Business activities done across national borders is International Business. The International business is the purchasing and selling of the goods, commodities and *services* outside its national borders. Such trade modes might be owned by the state or privately owned organisation. In which, the organisation explores trade opportunities outside its domestic national borders to extend their own particular business activities,

Nations that were away from each other, because of their geological separations and financial and social contrasts are now connecting with each other. World Trade Organisation established by the administration of various nations is one of the major contributory factors to the expanded connections and the business relationship among the countries. The national economies are dynamically getting borderless and fused into the *world economy* as it is clear that the world has today come to be known as a 'global village'. Numerous more organisation are making passage into a worldwide business which presents them with opportunities for development and tremendous benefits. India was trading with different nations for quite a while, yet it has quickened its progress of incorporating with the world economy and expanding its foreign trade and investment.

To the extent that management is a *science*, the guides of management are universal and transcend any particular environment. However the *art* or practice of management is quite different in different surroundings. Clearly, there are differences of political, legislative, social, cultural, as well as of economic nature. These variables or differences may act as constraints, limiting the options for the manager and the organisation. These may also provide opportunities. A good manager, therefore, must be sensitive to the nature of the place where he is operating. He must learn to make decisions and to plan, organise and control activity in the environmental perspectives of his own state.

The purpose of this text is to guide this perspective to our readers. Books written by foreign authors obviously lack this perspective. This book depicts a unified picture of what business is and how it is applied to various forms of human endeavour. It gives a basic guide to understand the fundamental and technical analysis of business in the real world in the most useful and organised way. An attempt has been made to eliminate the excessive use of business jargon which often affects readability of books on management. Instead, familiar and clear language has been used to make the subject easily intelligible to the readers and reviewers.

Although the organisation of the book follows a widely used *business management* function approach, chapters have been designed to stand on their own preferences. Chapter 1 introduces the field of Business Management sectioned in six modules which include economics and international business, essential management skills, marketing and communications, strategy and operations, finance and accounting, and human resource management. Chapter 2 gives the background and major thoughts on Project Management divided in four sections which include basics of project management, risk management, change management, and leadership and team development.

Chapter 3 depicts an overview of Strategic Management divided in four parts which include basics of strategic management, marketing essentials, principles of economics, and leadership and team development. Chapter 4 gives a brief clarification on innovation management divided in four parts which include basics of innovation management, digital transformation, design thinking, and change management. Chapter 5 depicts an overview on Financial Management which is divided in four sections which include accounting principles, financial performance, basics of financial concepts, and investment fundamentals.

Chapter 6 examines the distinction part in Professional Career Skills divided in four parts which include time management, communication skills, problem solving skills, and leadership and team development. Chapter 7 discusses an optimistic review on Global Governance divided in four sections which include international politics, international law, economics and international business, and essential management skills. Chapter 8 describes the Sustainable Development of a business environment in the real time concept, it's divided in four sections which include basics of sustainable development, sustainable business, crisis management, and innovation management.

The materials in this book has come from a wide variety of sources. We have drawn freely from the latest findings, formulations and researches in various fields of management and have accomplished to depict an integrated picture of the classical, behavioural, quantitative and contingency approaches. However, the differences in the underlying values, assumptions and action implications of these approaches have also been specifically pointed out wherever necessary.

Each chapter in this book is accompanied by three study aids, namely, introduction, content with live examples and conclusions. Live examples in each module guide the readers to review the material presented in the chapter, the conclusion contains the information summarised from the respective module which helps the reviewer to understand better the contents in the chapter. It also helps the reader to integrate information relating the module topic discussed. A reading list at the end of each chapter will help readers in their quest for additional knowledge.

One of the most pleasant aspects of writing a book is the opportunity to thank those who have contributed to it. We are grateful to many of our colleagues who have contributed directly and indirectly to this text. We are thankful to International Business Management Institute in German for the access throughout the project. Finally, we express our sincere thanks to all those whose work and ideas have helped us in writing this book.

Ahmed H. H. Mansoor

CONTENT

BUSINESS MANAGEMENT

ECONOMICS AND INTERNATIONAL BUSINESS

Introduction

Welcome to Economics & International Business!
“Economics” is the science that studies the choices of individuals, households, and organisations, in allocating scarce resources. Scarcity means that individuals and societies have limited resources.
Although many people don’t recognise it, we all make economic decisions every day – we decide what products or activities fit into our budgets and needs. Through these decisions, we define what we want to be available on the market and at what price. The economic system is the place, where goods and services are produced, distributed, and consumed.
Economists study how people make decisions about buying, selling, saving, and investing. We study how people interact with one another in markets. We also study the economy as a whole when we concern ourselves with total income, unemployment, and inflation.
For businesses, creating a long-term global strategy is a complicated but important task. As is evident throughout this course, no country is an economic island, and the economy truly is global. A growing number of businesses have become true multinational firms, with operating facilities around the world. They have figured out how to mitigate their risks both politically and economically, but they have also found how events in one nation can reverberate around the world.
As businesses contemplate and engage in global expansion, there are endless opportunities, but also potential risks. The home market is also attractive to foreign firms. For an organisation to be successful in today’s global economy, its owners and stakeholders must look across borders and understand the global community.

Economics is the social science that studies how societies manage their scarce resources.

Ten Principles of Economics

Although the study of economics is complex, the field is unified by several central ideas. The famous *Ten Principles of Economics* by Gregory Mankiw are the principles of how the global economy works. These principles include basic concepts used by economists around the world.

How People Make Decisions

Principle 1: People face trade-offs.
Economists often say, “There ain’t no such thing as a free lunch.” This means that there are always trade-offs: To get one thing, you have to give up something else. For example, if you spend money on a new computer, you won’t be able to spend it on a new television. This principle also works for nations. There is the classic trade-off between “guns and butter”: if society spends more on national defence (guns), then it will have less to spend on social programs (butter). Recognising that trade-offs exist does not indicate what decisions should be made.

Principle 2: The cost of something is what you give up to get it.
Making decisions requires comparing the costs and benefits of alternative courses of action. For instance, if a firm spends $100 on electrical power, they can’t use that money to buy new office equipment. Economists say the firm’s opportunity cost is $100. The *opportunity cost* of an item is whatever you give up to get that item. Thus, opportunity costs are not restricted to financial costs: By seeing a movie in a cinema, your opportunity cost is not just the price of the ticket, but the value of the time you spend in the theatre. Put another way, opportunity costs are the benefits you could have received by taking an alternative action. When making decisions, managers should always consider the opportunity costs of each possible action.

Principle 3: Rational people think at the margin.
Economists generally assume that people are rational – that means, their decisions are based on facts and reasons. Rational people make decisions by comparing marginal benefits and marginal costs. For example, you should only attend college for another year if the benefits from that year of schooling exceed the cost of attending that year. Furthermore, a car company should only produce more cars if the benefit exceeds the cost of producing them.

Principle 4: People respond to incentives.
Because rational people weigh marginal costs and marginal benefits of activities, they will respond when these costs or benefits change. For example, when the price of cars rises, buyers have an incentive to buy fewer cars. Public policy can alter the costs or benefits of activities. Some policies have unintended consequences because they alter behaviour in a manner that was not predicted.

How People Interact

Principle 5: Trade can make everyone better off.
Trade is not a contest in which one side wins and one side loses. Trade can make each trader better off. Trade allows each trader to specialise in the activities he or she does best, whether it be farming, building, engineering or manufacturing. By trading with others, people can buy a greater variety of goods or services. This is true for both individuals and countries. You are likely to be involved in trade with other individuals and companies on a daily basis: Most people do not make their own clothes or grow their own food – but by trading you are able to get all those products.

Principle 6: Markets are usually a good way to organise economic activity.
In a market economy, the decisions about what goods and services to produce and how much to produce are made by millions of firms and households in the marketplace. Political economist Adam Smith made the famous observation that although individuals are motivated by self-interest, an *invisible hand* guides this self-interest into promoting society's economic well-being. Consequently, centrally planned economies have mostly failed because they did not allow the market to work.

Principle 7: Governments can sometimes improve market outcomes.
When a market fails to allocate resources efficiently, the government can change the outcome through public policy. One kind of market failure is *externality* – it occurs when the actions of one person affect the well-being of other people. The second kind of market failure is *market power* – when a single actor has so much power, that he can influence the price. In these cases, the government may be able to intervene. Examples are regulations against monopolies. The government may also intervene to improve equality with income taxes and welfare.

How the Economy Works

Principle 8: A country's standard of living depends on its ability to produce goods and services.
There is great variation in living standards across countries today as well as within the same country over time. These are largely attributable to differences in productivity. *Productivity* is the number of goods and services produced from each unit in a specific time period. As a result, public policy should improve education and improve access to the best available technology.

Principle 9: Prices rise when the government prints too much money.
When a government creates large quantities of the nation's money, the value of the money falls. In this process, called *inflation*, prices increase and consumers require more of the same money to buy goods and services. High inflation is costly to the economy. Policymakers wishing to keep inflation low should maintain slow growth in the quantity of money.

Principle 10: Society faces a short-run trade-off between inflation and unemployment.
In the short run, an increase in the quantity of money (inflation) stimulates spending, which raises production. The increase in production requires more hiring, which reduces unemployment. The result is a temporary trade-off between inflation and unemployment. Understanding this trade-off is crucial for understanding the short-run effects of changes in taxes, government spending, and monetary policy.

The Invisible Hand

Adam Smith's famous book *The Wealth of Nations*, published in 1776, provides the basis for today's market economy. Why do market economies work so well? Is it because all people treat one another with love and kindness? No, Smith argues that all participants are motivated by self-interest.
Although a marketplace with millions of participants may appear to be chaotic, the "invisible hand" of the marketplace guides this self-interest into promoting desirable social outcomes and general economic well-being. In his book, Smith wrestled with a paradox:

"How is it that water, which is so very useful that life is impossible without it, has such a low price — while diamonds, which are quite unnecessary, have such a high price?"

The answer is connected to the *principle of scarcity*: Water is not a scarce item relative to diamonds. Smith recognised that "value in use" isn't the same as "value in exchange." Basically, we can't price an item higher simply because it's more useful. In fact, quite the opposite is true. A product's highest price is determined by its marginal utility, which is the value of its last usable unit.

So, water has a relatively low price because it's everywhere and is so useful. Diamonds, on the other hand, have a relatively high price because they're scarce by comparison and not a necessity. You can take *two rules* away from this case:

- If you produce very useful products (e.g. shampoo), the products will become commodities and the price will come down. Consequently, you have to sell in large volumes to make a profit.
- If you produce products that are limited in their use (e.g. most luxury goods), the price will go up. You'll probably sell fewer products, but you'll make more money on each product.

The "invisible hand" is a term used by Adam Smith to describe the unintended social benefits of individual self-interested actions.

Micro and Macro

In every area of science, there's a big picture and a little picture, the macro and the micro. Macroeconomics and Microeconomics are simply two different points from which the economy can be observed – just think about them as useful tools like a microscope and a telescope.

Microeconomics is the study of small economic units such as individual people, families, and firms. It tries to explain how *individuals and firms* respond to changes in price and why they demand what they do at particular price levels. Briefly speaking, microeconomics analyses all the small parts that make up the whole economy.
Macroeconomics looks at the total output of a *nation* and the way the nation allocates its limited resources of land, labor, and capital in an attempt to maximise production levels and promote trade and growth for future generations. After observing the society as a whole, Adam Smith noted that there was an "invisible hand" turning the wheels of the economy: a market force that keeps the economy functioning.

Microeconomics is the study of small economic units, macroeconomics is the study of the whole economy.
Both approaches are interrelated, as macroeconomic issues help shape the decisions that affect individuals, families, and businesses. Therefore, we will cover the most important concepts of both fields in this course.

Supply and Demand

"Supply" and "Demand" are perhaps the most fundamental elements of economics and the market economy. Supply points to the willingness of sellers to provide goods and services for sale. Demand points to the ability of buyers to purchase goods and services.

Demand

Demand refers to how much (quantity) of a product or service is desired by buyers. Typically demand rises as the price of a product falls and demand decreases as prices rise.
The *law of demand* states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa. The law of demand says that the higher the price, the lower the quantity demanded, because consumers' opportunity cost to acquire that good or service increases, and they must make more tradeoffs to acquire the more expensive product.
Economists graphically represent the relationship between product price and quantity demanded with a *demand curve:*

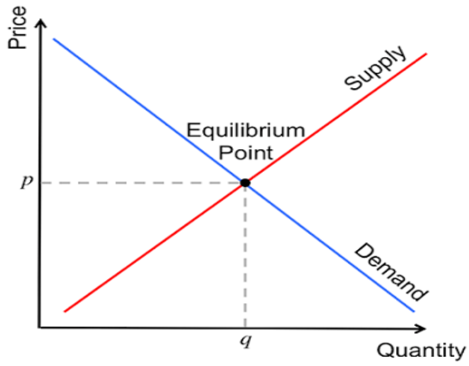
The sensitivity of the changes in price and demand is called *price elasticity*. Products and services have different degrees of price elasticity. For example, if gasoline increases in price, overall demand may not be proportionately reduced, as people still need gas to fuel their vehicles (low degree of price elasticity). If, however, the price of airline travel increases greatly, it may be likely that demand for air travel will have a greater than proportionate decline (high degree of price elasticity).
Businesses need to carefully monitor the factors that may affect demand. If they aren't keeping a careful eye on these different demand elements as related to their business, their competitors will find a competitive advantage that can affect an organisation's long-term survival.

Supply

Supply refers to the relationship between different prices and the quantities that sellers will offer: Generally, the higher the price, the more of a product or service that will be offered.
The *law of supply* states, all other factors being equal, as the price of a good or service increases, the amount of goods or services that suppliers offer will increase, and vice versa. The law of supply says that as the price of an item goes up, suppliers will attempt to maximise their profits by increasing the quantity offered for sale.
You can see the relationship between product price and quantity supplied in a *supply curve*:

Market Equilibrium

The *law of supply and demand* states that prices are set by the intersection of the supply and the demand. The point where supply and demand meet identifies the prevailing market price at which you can expect to purchase a product:



This state where supply and demand are balanced is called the *equilibrium price* or *market equilibrium*. The market forces described here, working through the price mechanism, are the essence of Adam Smith's "invisible hand": Supply and demand come into balance without central planning.
The market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services produced by sellers.

When the supply and demand curves intersect, the market is in equilibrium. This is where the quantity demanded and quantity supplied are equal.

Economic Systems

In the twentieth century, there were primarily two economic systems that provided answers to the questions of what to produce and for whom, given limited resources: *planned economies* directed by a centralised government and *market economies* based on private enterprise.

Market Economies

The market economy (private enterprise system) is centred on the economic philosophy of capitalism and competition.
Capitalism is an economic system in which businesses are rewarded for meeting the demands of consumers. It allows for private ownership of all businesses. Entrepreneurs, desiring to earn a profit, create businesses that they believe will serve the needs of the consumers.
Economic decisions and the pricing of goods and services are guided solely by the interactions of a country's individual citizens and businesses. There is little government intervention or central planning.
There are four different types of *competition* in a market economy:

- *Pure competition* is a market or industry in which there are many competitors. It is easy to enter the market, as there are few barriers to entry and many people/firms are able to offer products that are similar to each other. Individual firms have very little control over the price.
- *Monopolistic competition* means that there are fewer competitors, but there is still competition. In this market environment, it is somewhat difficult to enter the market. Due to the differentiation factor, individual firms are able to have some sort of control over the prices.
- *Oligopoly* is a market situation with few competitors. The few competitors exist due to high barriers to entry. The products or services in this market may be similar (telephone companies) or they may be different (supermarkets). Here, firms do have some control over prices.
- A *monopoly* exists in the private enterprise system when there is absolutely no other competition. That means that there is only one provider that exists to provide a good or service. In this case, it is often the government that regulates who can enter the market (e.g. public transportation).

A market economy has several *advantages*: Firstly, competition leads to efficiency because businesses that have fewer costs are more competitive. Secondly, innovation is encouraged because it provides a competitive edge and increases the chance for wealth. Thirdly, a large variety of goods and services are available as businesses try to differentiate themselves in the market.

However, market economies have also *disadvantages*: Firstly, the disparity in wealth exists because wealth tends to generate wealth. It is easier for wealthy individuals to become wealthier than it is for the poor to become wealthy. Secondly, there tends to be a reduced social safety net, because social programs are mostly funded by the government.

Planned Economies

In addition to the private enterprise system, planned economies are another market structure in the world economy. In a planned economy, the government controls business ownership, profits, and resources. Countries that existed with planned economies, however, have not been highly successful. The most common theory of a planned economy is *communism,* which purports that all property is shared equally by the people under the direction of a strong central government.

It is an economic system that involves public ownership of businesses. Rather than entrepreneurs, the government decides what products consumers will be offered and in what quantities.
Communism was proposed by Karl Marx and developed and implemented by V. I. Lenin. In Marxist theory, "communism" denotes the final stage of human historical development in which the people rule both politically and economically. The communist philosophy is based on each individual contributing to the nation's overall economic success and the country's resources are distributed according to each person's needs. The central government owns the means of production and everyone works for state-owned enterprises.

A planned economy has some *advantages*: Since the government has control over all factors of production, the risk of a monopoly are next to nil under a planned economy. Also, it may help in reducing the gap between the poor and the rich because all government policies are designed to bring social equality.
However, the planned economy has some big *disadvantages*: Firstly, it leads to the destruction of entrepreneurs and innovators which in turn leads to lower productivity and also lower growth for a country. Secondly, this system leads to dissent among the citizens as the basic right of free will is challenged under this system. Finally, this system suffers from government bureaucracy. Delay in decision making on the part of government officials leads to bottlenecks in production and inefficient use of resources.

Mixed Economies

History has proven that, worldwide, the central command-economy model has not sustained economic growth and was not able to provide long-term economic security for its citizens.
The majority of economies that we see today, however, are *mixed economies*. These are economic systems that display characteristics of both planned and market economies.
In the mixed economy, government-owned firms frequently operate alongside private enterprises. Good examples of this can be found in Europe where the respective governments have traditionally controlled certain key industries such as railroads, banking, and telecommunications.
Strictly speaking, all modern economies are mixed, though there are wide variations in the amount of mix and the balance between public and private influence.

Today, the majority of economies are mixed economies.

The Business Cycle

The business cycle is the natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, levels of employment and consumer spending can help to determine the current stage of the economic cycle.
1. Boom
Firstly, the boom (or prosperity) of the business cycle occurs when unemployment is low, strong consumer confidence leads to record purchases and as a result, businesses expand to take advantage of the opportunities created by the market. A good example of the market experiencing prosperity took place in Silicon Valley from 1998 to 2001. Suddenly the market identified technology as the next big business opportunity, so companies were adopting online technologies at a record pace; brick and mortar businesses were creating electronic marketplaces for the first time.
2. Recession
Secondly, a recession is a cyclical economic contraction that lasts for at least six months. Economists agree that a recession results in a downturn lasting for at least two consecutive quarters. During a recession consumers frequently postpone major purchases, such as homes and vehicles, and businesses slow production, postpone expansion plans, reduce inventories, and cut workers. As a result, unemployment rises and consumer demand decreases.

3. Depression
Thirdly, a depression is classified as a recession, or economic slowdown, that continues in a downward spiral over an extended period of time. It is also characterised by continued high unemployment and low consumer spending. Many economists suggest that sufficient government tools are available to prevent even a severe recession from turning into a depression. For example, federal, state, and local governments can make investments to improve the country's infrastructure as a means of bringing the market out of a depression. Governments can also influence the economy through regulations in fiscal and monetary policy.
4. Recovery
Finally, these tools contribute to the next stage in the business cycle: recovery. The recovery period is when economic activity begins to pick up. Consumer confidence improves, which leads to increased spending on big items such as homes and vehicles. Unemployment also begins to fall, and people are working and contributing to the economy again.

The business cycle is the downward and upward movement of the gross domestic product (GDP) around its long-term growth trend. The length of a business cycle is the period of time containing a single boom and contraction in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth and periods of relative stagnation or decline.

The Stability of an Economy

Economists regularly measure the health of the economy – focusing on productivity levels, inflation levels, and employment levels. Furthermore, economic policy-makers are said to have two different kinds of instruments to influence a country's economy: fiscal policies and monetary policies.

Productivity

Productivity is the relationship between the goods and services produced and the inputs needed to produce them. There are three popular methods to measure a nation's productivity:
1. Gross Domestic Product
The Gross Domestic Product, also known as the GDP, is the total dollar value of all goods and services produced in a country each year. It's essentially a record of how much workers produced for consumers to purchase. GDP looks at only new goods – for example, new cars. It is a very popular economic indicator and provides a benchmark for the nation's overall economic activity.
2. Consumer Price Index
The Consumer Price Index, also known as the CPI or the cost of living index, represents the change in price of a specific group of goods and services over time. This group of goods and services is called a market basket, and it includes about 400 items in such categories as food, housing, clothing, entertainment, medical care, and personal care. As a business owner, you need to be aware of the CPI because it affects the rent you pay on your facility or the wages you pay your employees.
3. Income
Income is a way of measuring how much money is available to be spent by individuals and businesses. National income includes such things as wages and salaries, self-employed income, rental income, corporate profits, and interest on savings and investments. Economists are most interested in disposable and personal income. Personal income is all income received before taxes are paid, and disposable income is what's left over after taxes.

We can measure economic productivity by checking the Gross Domestic Product (GDP), Consumer Prices Index (CPI), or Income.

Inflation and Deflation

Inflation and deflation are two very important economic conditions. The balance between these conditions, opposites of the same coin, is delicate, and an economy can quickly swing from one condition to the other.
Inflation is defined as a rise in the general level of prices of goods and services over a specified period of time. Inflation is caused when goods and services are in high demand, creating a drop in availability. Consumers are willing to pay more for the items they want, causing manufacturers and service providers to charge more. Supplies can decrease for many reasons: A natural disaster can wipe out a food crop or a housing boom can exhaust building supplies, among other situations. Inflation impacts the economy because more money is needed to sustain a given standard of living. If people receive a fixed income and suddenly the cost of bread increases dramatically, it is easy to see the negative impact caused by this increased price.
Hyperinflation is very high and typically accelerating inflation. It quickly erodes the real value of the currency, as the prices of most or all goods increase. Unlike regular inflation, where the process of rising prices is protracted and not generally noticeable except by studying past market prices, hyperinflation sees a rapid and continuing

increase in nominal prices, the nominal cost of goods, and in the supply of money. Typically, however, the general price level rises even more rapidly than the money supply as people try ridding themselves of the devaluing currency as quickly as possible.
Deflation is the price-level change referred to during a period of falling prices. While deflation sounds good, it can have disastrous consequences; the Great Depression was a general period of deflation. Prices fell, but so did employment and wages for those lucky enough to be employed, as well as availability of most goods and services.

Employment Levels

Employment levels have a major impact on a nation's economy. In fact, the unemployment rate is one of the most popular economic indicators that most people intuitively use to understand the state of the economy. The unemployment rate is usually expressed as the percentage of total workers who are actively seeking work but are currently unemployed. These indicators tend to increase during recessions and decrease during expansions.
Because the unemployment rate is so important, we're going to introduce four different categories that have been created to characterise an economy's state of unemployment:

- *Frictional unemployment* occurs when someone is temporarily not working. A good example is a recent graduate who is looking for work but has yet to find a job.
- *Seasonal unemployment* occurs when people are not working for some months, but they are not looking for a job during that period. People involved in the tourism industry or seasonal farmworkers are good examples of this.
- *Structural unemployment* occurs when people are not working because there is no demand for their particular skill set. An example might be someone who graduates with a Ph.D. in medieval economics. There is a relatively low demand for people with this skillset, so structural unemployment results for many in that field.
- *Cyclical unemployment* occurs when there is an economic slowdown and people are looking for work but there aren't enough jobs. The economic recession resulted in fewer jobs, and even highly skilled graduates with advanced degrees had difficulty finding work. The unemployment rate does not include out-of-work people who are no longer looking for jobs.

Fiscal and Monetary Policy

Economic policy-makers are said to have two different kinds of instruments to influence a country's economy: *fiscal policies* and *monetary policies.*

Fiscal policy is the decision that the government makes to spend money or increase taxes for the specific purpose of stabilising the economy. Government increases in spending and lowering of taxes tend to stimulate economic growth, while decreasing government spending and increasing taxes tends to slow economic growth.
This makes sense when we think about the individual taxpayer's disposable income. The more money individuals have, the more they will be able to spend on goods and services in the market and therefore stimulate market growth. The primary sources of government funds to cover the costs of its annual budget are raised through taxation of its citizens, fees collected from business, and borrowing against assets.
Monetary policy is the regulation of the money supply and interest rates in order to control inflation and stabilise a currency. While fiscal policy is conducted by a nation's government, monetary policy is handled by the countries' central banks (which have varying amounts of independence around the world). In the United States, the U.S. Federal Reserve is responsible for managing this process; in the Eurozone, it's the task of the European Central Bank.

Tool: Country Analysis

Managers need to be able to make predictions about a country's future if they think about expanding. A country analysis, as developed at the Harvard Business School, is a four-step process that attempts to organise all available economic, social, political, and geographic data for strategy development.
Step 1: Analyse the Past Performance
In a first step, management should analyse all available measures, e.g. the exchange rates, GNP, inflation, employment, investment, consumption, population growth, education level, etc.
Step 2: Identify the Country's Strategy
After analysing the past performance, management should try to identify the main goals of the country's government (linked to the productivity of the economy) as well as the fiscal, monetary, trade, and social policies.
Step 3: Analyse a Country's Context
In a third step, management has to evaluate the "basic facts" about the country, e.g. several physical indicators (size, population, geography), political indicators (government type, stability, corruption) and international indicators (trade advantages, competitiveness).

Step 4: Make a Prediction
Now management should be able to combine all important information and make a prediction based on steps 1, 2 and 3.

Country analysis is a multipurpose tool that provides a way to sort out all the reams of economic data that are available on a nation. By using this analyst tool you possess the framework that global strategists use in the boardrooms of multinational corporations.

International Strategies

During the last decades, many barriers to international trade have fallen and a new wave of companies began pursuing global strategies to gain competitive advantages. Today, multinational corporations (MNC) have to deal with many cultural differences, languages and various legal and financial systems.

Forces & Barriers

International Business is not a new phenomenon, trade across the globe is as old as business itself. A number of developments can be identified as *driving forces of international business:*

- The worldwide movement towards liberalisation, privatisation, and globalisation is one important force that drives global integration. With the advent of MNCs (multinational corporation) culture, new opportunities have been accelerated for going global and taking the whole world as one big platform.
- Technology is a powerful, stateless and universal factor that crosses national and cultural boundaries.
- Revolutions in the field of transportation and communication have been able to reduce both time and cost barriers; making global business easier.
- Product development costs enable companies to recover investments by placing the product in varied markets.

However, businesses that intend to expand to new countries and markets still face many challenges since there are many factors that *restrict international business expansion:*

- Countries protect local enterprises by controlling market access. If the entry-level is too high, companies will not be able to enter those markets. Also, trade blocs, like NAFTA, EU, or ASEAN allow free trade among member states but make it difficult for other companies to join.
- A very high amount of capital is required to become a player in the global market. Many firms are not able to take that risk.
- Instability in the exchange rate of domestic currencies restrict the growth of international business and political instability in specific geographic regions can hinder companies to expand to those countries.

International vs. Global

International strategies and global strategies are two categories. An *international strategy* means that subsidiaries around the world act independently and operate as if they were local companies. A *global strategy* involves a carefully crafted single strategy for the entire network of subsidiaries, encompassing many countries simultaneously and leveraging synergies across many countries.

There are three key differences between the global strategy and international strategy:

- *Coordination from the center*: An international strategy does not require strong coordination from the center. A global strategy, on the other hand, requires significant coordination between the activities of the center and those of subsidiaries.
- *Product standardisation*: An international strategy assumes that the subsidiaries should respond to local business needs. In contrast, the global strategy assumes that the center should standardise its products in all the different countries.
- *Strategy integration*: The international strategy gives subsidiaries the independence to plan and execute competitive moves independently (based on the analysis of local rivals). The global strategy plans competitive battles on a global scale.

Major Reasons

Companies go international for a variety of reasons but the typical goal is company growth or expansion. These are three major reasons why your company may want to decide to go international:

- *To expand sales by accessing new markets***:** Larger markets mean the potential for greater profit, so companies go global to seek new business opportunities and to expand the range of goods and services that they offer.

- *To reduce costs:* Overseas operations are often attractive to firms seeking to reduce budgets in order to increase profit. For example, it is possible to cut business overhead costs in countries with lower costs of living.
- *To reduce risk***:** Going global can reduce a company's reliance on local and national markets. So downturns in consumer demand at home are offset by upturns in consumer demand in international markets.

There are three major reasons for going international:
1. to expand sales, 2. to reduce costs, and 3. to reduce risk.

Different Strategies

Foreign market entry strategies differ in degree of risk they present, the control and commitment of resources they require and the return on investment they promise. How do firms go international? There are six major types of entry modes:

- *Exporting* is the process of selling goods or services produced in one country to other countries. Firms can choose between "indirect exporting" (products are carried and sold abroad by agents) and "direct exporting" (the firm sells its products directly in foreign markets).
- By *licensing*, an international firm gives the licensee patent rights or know-how on products and processes. In return, the licensee will produce the products and pay the licensor fees usually related to the sales volume of the products.
- *Franchising* is similar to licensing. Semi-independent business owners (franchisees) pay fees to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.
- In a *Joint Venture*, cooperating firms create an independent firm in which they both invest. This type of agreement gives the international firm better control over local market knowledge.
- A *strategic alliance* is a cooperative agreement between different firms, such as shared research or formal joint ventures. It usually between firms in high-industrialised nations and the focus is often on creating new products and technologies rather than distributing existing ones.
- A firm can also make *direct investments* in a production unit in a foreign market. It is the greatest commitment since there is a 100% ownership. Firms can make a direct acquisition in the host market or they can develop their own facilities (called Greenfield investment).

The market-entry techniques that offer the lowest level of risk and the least market control are export and licensing. The highest risk, but also the highest market control and expected return on investment are connected with direct investments.
In conclusion, *international collaboration* is a great opportunity…
– to combine resources (cross-border alliances are able to develop new products),
– to eliminate risks (companies are able to spread risk), and
– to learn (firms are able to gain important knowledge from their partners).

Case Study: EU & WTO

No country is able – nor it has the resources necessary – to produce all the needed goods on its own. Most countries share their trading business with others, exchanging material, labor force or the already produced goods. International trade creates a global market in which all countries can trade based on their individual abilities. Cooperation within a region like Europe or even worldwide provides stability, enhancing fair competition, free labor movement, and fair prices.

The *European Union (EU)* is a political and economic union of 28 European states with a total population of more than 500 million citizens. The EU was established in 1993, but the union traces its origins to the European Coal and Steel Community established after World War II in 1951 to secure peace through economic integration.
The EU has its own governmental bodies and legal institutions – for example, the European Parliament, the European Commission, the European Council, the Court of Justice, and the European Central Bank. EU legislation is binding for all EU member states and the governments of member states must incorporate EU laws into their national legislation.
The EU has developed an internal single market through a standardised system of laws. This *European Single Market* guarantees the free movement of goods, capital, services, and labor – the 'four freedoms' – within the European Union.

Freedom of Goods	Many products on the EU market are subject to harmonised rules that protect consumers, public health, and the environment. Once goods have been admitted into the market they cannot be subjected to customs duties, discriminatory taxes, or import quotas.
Freedom of Capital	Restrictions on capital movements across borders were prohibited. European citizens and companies can open bank accounts, buy company shares, raise money, or purchase real estate in all EU countries.
Freedom of Services	EU companies, as well as self-employed persons, have the freedom to establish themselves in other EU countries and the freedom to provide services in countries other than the one in which they are established.
Freedom of Labour	EU citizens can move freely between member states to live, work, study or retire in another country. About 1.7 million people commute to work across a European border each day, and in some regions, these people constitute up to a third of the workforce.

Today, the European Single Market is the largest single market in the world, which has lead to greater competition in services, the removal of trade barriers, the reduction of business costs, and the elimination of anti-competitive practices such as monopolies.
The EU actively negotiates trade agreements with non-EU countries. These agreements grant mutually-beneficial access to the markets of both the EU and the countries concerned. Each agreement is unique and can include tariff reductions, rules on matters such as intellectual property or sustainable development, or clauses on human rights.

The *World Trade Organisation (WTO)* is an intergovernmental organisation with 164 member states dealing with the rules of international trade between nations. The WTO officially commenced in 1995, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948.
The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. More specifically, the WTO's main activities are:

- negotiating the reduction or elimination of obstacles to trade (e.g. import tariffs) and agreeing on rules governing the conduct of international trade (e.g. anti-dumping)
- monitoring the application of the WTO rules and the trade policies of its members
- settling disputes among its members regarding the application of the agreements

WTO supporters argue that the opening of national markets to international trade – with justifiable exceptions and some flexibility – will contribute to sustainable development, raise people's welfare, reduce poverty, and foster peace and stability. However, critics reply that the WTO has a systematic bias toward rich countries and multinational corporations, harming smaller countries which have less negotiation power.

So far, the EU has played a central role in developing the international trading system since World War II. Currently, the EU is exploring the possibility of modernising the WTO. Like the WTO, the EU was originally designed to remove customs barriers and promote trade between its member states.
Both the European Union and all the individual EU countries are members of the WTO. However, the EU operates as a single actor at the WTO and is represented by the European Commission rather than by the member states. The Commission negotiates trade agreements and defends the EU's interests before the WTO on behalf of all 28 member states.
The European Commission has put forward a first set of ideas to modernise the WTO and to make world trade rules fit for the challenges of the global economy. During the last decade, progress and reform initiatives have stalled due to significant differences between developed nations (led by the European Union, the United States, Canada, and Japan) and the major developing countries (led by India, Brazil, China, and South Africa). There is also considerable contention against and between the EU and the US over their maintenance of subsidies.
Slow reform developments at the WTO are also a sign that the international trading system has changed dramatically in the past 20 years. The system has evolved, with new actors – essentially transition and developing countries – playing a central role.
Free trade and growth of imports/exports in Europe as well as in the WTO have been important factors in raising living standards and in reducing poverty. The liberalisation of the international trading system has benefited some developing countries, which have experienced an unprecedented phase of sustained economic growth. However, the EU and the WTO have to ensure that developing countries become fair partners and that reforms will improve not only economic but also environmental and social conditions. Furthermore, both institutions have to be able to reform themselves constantly to stay successful international key figures.

ESSENTIAL MANAGEMENT SKILLS

Introduction

Welcome to essential management skills. Good management skills are vital for any organisation to succeed and achieve its goals. To be a great manager, you must have an extensive set of skills – from planning and delegation to communication and motivation. Because this skill set is so wide, it's tempting to build skills in the areas of management that you're already comfortable with. But, for your long-term success, it's wise to analyse your skills in all areas of management and then challenge yourself to improve in all of these areas. This course will help you to do so.

What are the main functions of managers? Management is often expressed as the process of achieving an organisation's objectives through guiding development, maintenance, and allocating resources. The four primary functions of managers are *planning, organising, leading, and controlling.*

Planning

Planning is the process of determining a course of action for future conditions and events with the goal of achieving the company's objectives. Effective planning is necessary for any business or organisation that wants to avoid costly mistakes. There are different types of planning:

- Strategic planning involves creating long-range goals and determining the resources required for achieving these goals. Strategic planning is the most far-reaching level of planning and involves plans with time frames from one to five years. Strategic planning includes analysing the external environment and the organisation's readiness to react.
- Tactical planning denotes the implementation of the activities defined by the strategic plans. Generally, tactical planning involves shorter-range plans with time frames of less than one year.
- Operational planning involves the creation of specific methods, standards, and procedures for different functional areas of an organisation.
- Contingency planning involves the creation of alternative courses of action for unusual or crisis situations.

Organising

Managers have to figure out how many people are needed to get the jobs done. This management role involves blending human and capital resources in a formal structure as well as determining how the job flow happens. The manager will divide and classify work by determining which specific tasks need to be carried out in order to accomplish a set of objectives.

Leading

Managers also have the role of leading or directing employees and plans. The goal of leading is to guide and motivate employees in order to accomplish organisational objectives.

Controlling

Managers must monitor what's going on in the company. Controlling allows a manager to measure how closely an organisation is adhering to its set goals. Important steps are: setting performance standards, measuring the performance, taking corrective steps if necessary and using information from the process to set future performance standards.

Leadership

People who lead teams in the workplace are commonly seen as leaders and managers. In this chapter, we will address the difference between management and leadership, cover the important concept of "emotional intelligence", and discuss different leadership styles.

Leaders and Managers

Although sometimes used synonymously, leadership and management can be quite different. Leaders may be managers, but not all managers are leaders. So just what are the differences?

While *managers* tend to have their eyes on the bottom line, *leaders* are more often looking toward the horizon, trying to find new opportunities for growth and development. A manager is usually satisfied with the status quo, whereas the leader is often challenging it.

Leadership often involves reinventing the job; strong leaders create their role in an organisation or in the world system. Managers are often responsible for executing the task at hand, not thinking of future goals. Managers are responsible for maintaining, but leaders look to innovate. Managers may involve employees in their activities, but often on a "need to know" basis. Leaders, in contrast, work to inspire those around them by trying to help others gain personal growth and development from their activities and by turning weaknesses into strengths. Companies that have "leader-managers" throughout the corporate hierarchy are the most successful.

Management (structure)		Leadership (flexibility)
A function	↔	A relationship
Planning	↔	Selecting talent
Budgeting	↔	Motivating
Evaluating	↔	Coaching
Facilitating	↔	Building trust

Remember: Leaders may be managers, but not all managers are leaders!

Emotional Intelligence

Daniel Goleman, an American psychologist, was able to analyse what "distinguishes great leaders from good leaders". It isn't the intelligence quotient (IQ) or technical skills, it's emotional intelligence (EI): a group of five skills that enable the best leaders to maximise their own and their followers' performance. The EI skills are:

Self-awareness: The ability to recognise and understand your own moods, feelings, and drives and also the effects on others.

- Self-regulation: The ability to change your moods. It means learning to cheer yourself up and handling anger effectively.
- Motivation: A passion to work for reasons beyond money or status. Pursuing goals with energy and persistence. Having optimism even in the face of failure.
- Empathy: The ability to understand the social makeup of other people. Treating people according to their emotional reactions.
- Social Skills: The proficiency in managing and sustaining relationships and building networks.

Understanding emotional intelligence is especially important in light of changes in organisational structures.

Leadership Styles

Individual managers have their own styles of managing, and within organisations, there is often a predominant style of leadership. The predominant leadership styles – autocratic, democratic, and laissez-faire – have many variations. We can compare and contrast the effectiveness of each of these styles as it affects employee performance.

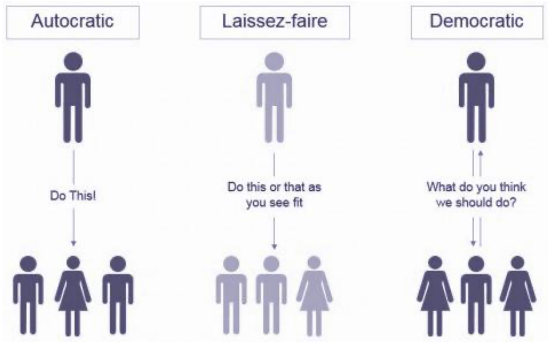
Autocratic Leadership

This style of leadership is directive and controlling. The leader will make all decisions without consulting employees. The autocratic style of leadership limits employee freedom of expression and participation in the decision-making process. It will not serve to create trust between managers and subordinates. Further, creative minds cannot flourish under autocratic leadership. Autocratic leadership may best be used when companies are managing less experienced employees. But managers should not use the autocratic leadership style in operations where employees expect to voice their opinions.

Laissez-Faire Leadership

This style of leadership makes employees responsible for most of the decisions that are made. This form requires extensive communication. Laissez-faire leadership may best be used when employees are educated, knowledgeable, and self-motivated. Employees must have the drive and ambition to achieve goals on their own for this style to be most effective. Laissez-faire leadership is not a good idea in situations where employees feel insecure.

Democratic Leadership
This style of leadership is centred on employee participation and involves decision making by consensus. The leader will involve employees in the decision-making process and they will be encouraged to give input and delegate assignments. Democratic leadership often leads to empowerment of employees because it gives them a sense of responsibility for the decisions made by management. Democratic leadership may best be used when working with highly skilled employees. It is most useful for implementing organisational changes and when the leader requires input from knowledgeable employees. One of the down-sides of democratic leadership is that it may lead to endless meetings.
As with many categories that describe business concepts, an organisation and its leadership may apply any or all of these leadership styles. For instance, a company may utilise an autocratic leadership style with the lower levels but employ a democratic leadership style with its professional staff in the upper levels.
Two additional styles of leadership worth exploring are transformational and transactional. Both have strong ethical components and philosophical underpinnings.



Transformational Leadership
Leaders who have a clear vision and are able to articulate it effectively to others often characterise this style of leadership. Transformational leaders look beyond themselves in order to work for the greater good of everyone. This type of leader will bring others into the decision-making process and will allow those around them opportunity to learn and grow as individuals. They seek out different perspectives when trying to solve a problem and are able to instil pride into those who work under them. Transformational leaders spend time coaching their employees and learning from them as well.

Transactional Leadership
This leadership style is characterised by centralised control over employees. The transactional leader will control outcomes and strive for behavioural compliance. Employees under a transactional leader are motivated by the transactional leader's praise, reward, and promise. They may also be corrected by the leader's negative feedback, threats, or disciplinary action.
The most effective leadership style is using a combination of styles. Leaders should know when it is best to be autocratic and when to be democratic. They can also be transformational and transactional at the same time; these are not mutually exclusive styles and in fact can complement one another extremely well.

Leadership Trends

In today's competitive environment, leaders are continually searching for new ideas and approaches to improve their understanding of leadership. Here are thumbnail descriptions of current leadership trends.

Coaching
A new trend in effective leadership, coaching, has become extremely popular throughout different organisations. This style of leadership involves guiding employees in their decision-making process. When coaching, management provides employees with ideas, feedback, and consultation, but decisions will ultimately be left in the hands of the employees. Coaching prepares employees for the challenges they will face. The lower an employee's skill and experience level, the more coaching the worker will require. The interactions that an employee has with the manager are the best opportunities they have for enhancing their respective skills. Coaching enables the employees to excel at their tasks. Instilling confidence in employees is extremely important.

Employee Empowerment
As organisations and companies become increasingly borderless, employee empowerment becomes ever more important. This trend in leadership has allowed employees to participate in the decision-making processes.

Employee empowerment is also a method for building employee self-esteem and can also improve customer satisfaction. It also ties them more closely to the company goals and will serve to increase their pride in their work and loyalty to the organisation.

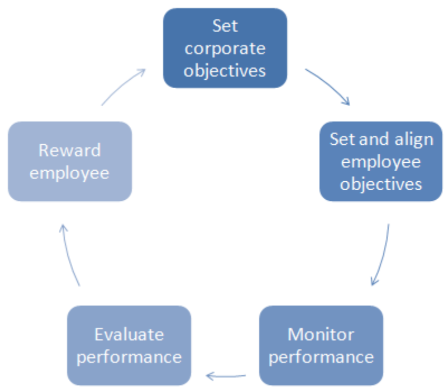
Global Leadership
As corporations become increasingly international in scope, there is a growing demand for global leaders. Although many of the qualities that make a successful domestic leader will make a successful global leader, the differences lie in the abilities of the leader to take on a global perspective. Global leaders are often entrepreneurial; they will have the ambition to take their ideas and strategies across borders. They will also have to develop cultural understanding; global leaders must be sensitive to the cultures of those working under them, no matter where they are based.

Equitable Treatment
An important trend in leadership is the equitable treatment of employees. This does not mean that each employee will be treated the same; it means that every employee will be given the amount of individual attention they require, and it will involve leadership knowing his or her employees. A good leader will get to know employees well enough to give them what they need in order to best perform. For some employees that may mean more structure; for others it may mean more freedom.

Feedback
Employees thrive on feedback, and by providing feedback and communicating effectively, managers can give employees the tools they need to improve their performance. Providing feedback will not dampen employee morale in most cases, but will allow opportunities for employees to learn from their mistakes and move on to perform their tasks better. Positive reinforcement should be used to encourage employees' positive behaviour, but when criticism is necessary, make sure it is constructive.

Management By Objectives

Management By Objectives (MBO) is a management model that aims to improve the performance of an organisation by defining objectives that are agreed to by both management and employees. The term was first outlined by Peter Drucker in 1954. In the long run, MBO allows the management to change the organisation's mindset to become more result-oriented.



In MBO, the management focus is on the result, not the activity. The tasks are delegated through negotiations and there is no fixed roadmap for the implementation. The nature of its planning process provides opportunities for the employees to find individual ways for accomplishing tasks.
Some of the important *advantages* are:

- Employee empowerment increases employee motivation, job satisfaction, and commitment.
- Frequent reviews and interactions between superiors and employees enable better communication and coordination.
- The goals are clear.
- Managers can ensure that objectives of the subordinates are linked to the organisation's objectives.

However, there are also *limitations:*

- MBO over-emphasises the setting of goals over the working of a plan as a driver of outcomes.

- Not all tasks and jobs are suitable for MBO and not all employees are motivated by finding their individual ways to accomplish tasks.
- It under-emphasises the importance of the environment or context in which the goals are set.

When this approach is not properly set and managed by organisations, some employees might be susceptible to distort results. In this case, managing by objectives would be counterproductive. Therefore, the use of MBO must be carefully aligned with the culture of the organisation. Objectives must be discussed openly and agreed upon.

Management by Objectives (MBO) focuses on the result, not the activity.

Team Development

In today's complex business environment driven by globalisation, working in teams is more important ever. But not all teams are identical. Are there different types of teams? How do teams develop? And can we divide the process of team development into specific stages?

Teamwork

Teamwork is defined as a group of people working together to achieve a common goal. Team members are mutually responsible for reaching the goal toward which they are working. Team building is a process meant to improve the performance of the team and involves activities designed to foster communication and encourage cooperation. Additionally, the objective is to avoid potential disputes and problems and to keep the morale of team members high.

Many different industries and organisations use teams to accomplish goals because people working together can often achieve more than they could individually. How do you know if you need a team to complete a project? Ask yourself the following questions:

- Can I achieve this goal by myself?
- Do I have the resources and time to undertake this project?
- Can a team of people be more effective than I would be in achieving this goal?

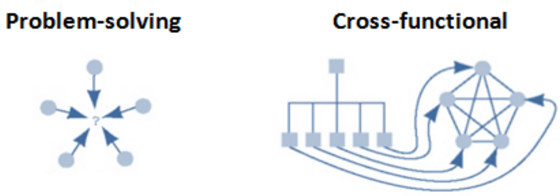
If your answers favour the involvement of others, it's time to consider forming a team.

In an increasingly complex environment, organisations are using a team approach to bring a diverse set of skills and perspectives into play. An effective use of teams often draws upon a creative approach of bringing together specialists who combine their efforts and develop intra team synergies to meet the challenges of their often complex organisational environment.

An example of an industry that often uses teamwork is the construction industry. A successful construction project cannot take place without the formation of teams. A design team will be formed at the beginning of the project and is made up of architects, engineers, and project consultants. The design team alone, however, will not be able to complete the project. They will also need to form a team with the owner of the project and the contractor.

Types of Teams

Throughout different organisations, there are different types of teams that are used to accomplish goals. Two of the most common team varieties are problem-solving teams and cross-functional teams.



Problem-Solving Teams: These teams are formed only for a specific time period until a problem is solved. Team members often consist of one level of management.

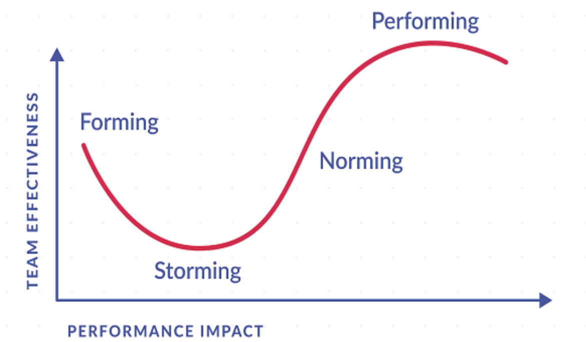
Let's say Corporation ABC has lost 10 percent of its North American market share. All of ABC's regional salespeople will be called in to form a team to regain that market share. Although their regional focus will remain, they will have to work together to solve the problem of regaining that market share, and when they achieve that goal, they will individually work on maintaining their hold in their market.

Cross-Functional Teams: This type of team is made up of members from different areas of the business and often from a common managerial level.

If a car company wants to bring a new car to market, a team will be formed and its members will consist of managers from different departments such as engineering, design, brand management, product development, market research, marketing, and finance.

Stages of Team Development

The *forming–storming–norming–performing* model of group development was first proposed by Bruce Tuckman in 1965, who said that these phases are all necessary and inevitable in order for the team to grow, face up to challenges, find solutions, plan work, and deliver results.



Stage 1: Forming

The first stage involves assembling the team and defining the goals, which should provide focus and be attainable. It is important that the team leader understands the strengths of each of the team members in order to assemble a cohesive team. Often in the forming stage, team members will be extremely polite to one another; they will be feeling each other out. An example of a goal that the team may set would be the project schedule. For a construction team, for example, there are many stages of the project that should be completed in a certain time frame to ensure that the project is completed on time for the owner. The design team designates the appropriate amount of time for the construction phase in which the builder will make a profit. It is important to agree upon and set this schedule from the beginning.

Stage 2: Storming

The second phase involves coordinating efforts and solving problems. If the teamwork starts to slip because of a difficult problem, it is necessary for the team members to get the project back on track. Team members should be conscious of the team's health and whether the team is taking steps in the right direction to reach the goals. It may be necessary to think creatively about approaches to solving a problem. Communication is extremely important to effective team performance in the storming stage. Effective teams communicate clearly and openly about problems. Ineffective communication can cause unnecessary tension and stress to team members. It is important that communication be relevant and responsive. Relevant communication is task-oriented and focused. Responsive communication involves the willingness of team members to gather information, to actively listen, and to build on the ideas and views of other team members.

Stage 3: Norming

The project norms are an informal standard of conduct that guides the behaviour of team members. This stage involves defining team roles, rights, and responsibilities. It is important to establish these norms at the beginning of the team-building process in order to avoid problems along the way. In addition to allocating responsibilities, it may also be necessary to allocate the risk that is to be undertaken by each team member. Each member of the team should have a sense of ownership of the project. Allocating responsibility also means establishing a team leader. Team leadership should not be a top-down effort but should be more of a coaching role. The team leader must act as a cheerleader, encouraging the team members to work together, providing ideas, and serving as a role model. There is often a period after the team has been formed when a conflict of personalities or ideas will arise. Team members begin to show their own styles; they are no longer worried about being polite. At this stage, there will be pessimism on the part of team members in relation to the project and there may also be confusion.

Stage 4: Performing

By this stage, the team is working together effectively, problems have been smoothed out, and achievements begin to become evident. A great deal of work will be accomplished at this stage. The team will be able to tackle new tasks easily and confidently. They will be comfortable using creative means. It is essential at this point to evaluate and report on the progress that has been made.

Decision-Making

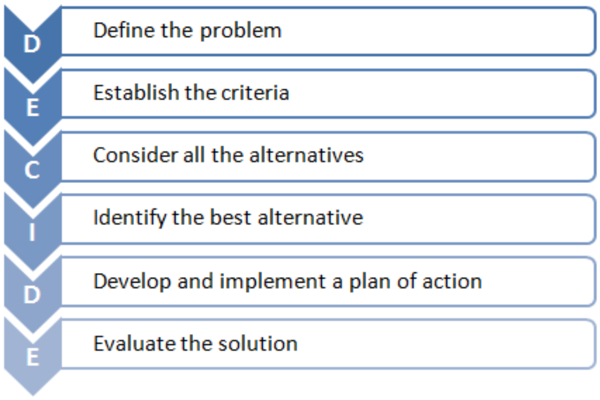
We all have to make decisions every day. Some of them are quite simple, others are more difficult. The best way to make a decision is to use an effective process. Clear processes usually improve the quality of our decisions and lead to high-quality results.

Decision Making Process

Some decisions are easy ones. But in the professional world, you will face complicated and high-impact choices that can affect your business's bottom line. Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions. Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organising relevant information and defining alternatives. A variety of researchers have formulated similar prescriptive steps aimed at improving decision-making.

In this chapter, we want to introduce the *DECIDE model* by Kristina Guo. The DECIDE model was intended as a resource for health care managers when applying the crucial components of decision making, but it also enables managers to improve their decision-making skills, which leads to more effective decisions.

The DECIDE model is the acronym of *6 particular activities* needed in the decision-making process:



Step 1: Define the Problem

Firstly, make sure to define what you want to achieve. Also, pay attention to involving the right people and encourage participants to contribute to the discussions. You can use your creativity right from the start – thinking from a different perspective might deliver the best solutions.

Step 2: Establish the criteria

Collect some information: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some information is internal: you'll seek it through a process of self-assessment. Other information is external you'll find it online, in books, from other people, and from other sources.

Step 3: Consider all the alternatives

The more good options you consider, the more comprehensive your final decision will be. When you generate alternatives, you force yourself to look at the problem from different angles. If you do so, you're more likely to make the best decision possible. Generating ideas through brainstorming and considering different perspectives will help you and your team develop good alternatives: Evaluate the feasibility, risks, and implications of each choice. By evaluating the risk involved with various options, you can determine whether the risk is manageable. Determine if resources are adequate, if the solution matches your objectives, and if the decision is likely to work in the long term.

Step 4: Identify the best alternative

The next step is to choose between the alternatives. Compare all the choices you have and determine the relative importance of various factors. This helps you compare unlike factors, and decide which ones should carry the most weight in your decision. You may even choose a combination of alternatives.

Step 5: Develop and implement a plan of action

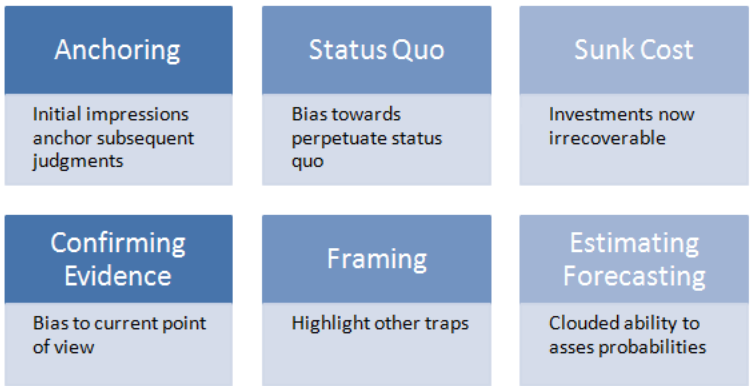
Once you've made your decision, it's important to explain it to those involved in implementing it. Talk about why you chose the alternative. The more information you provide about risks and projected benefits, the more likely people are to support the decision.

Step 6: Evaluate the solution
In this final step, consider the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the decision has not met the identified need, you may want to repeat certain steps of the process to make a new decision. For example, you might want to gather more detailed or somewhat different information or explore additional alternatives.

No one makes perfect decisions all of the time. Business environments are constantly changing and there are lots of unknowns and what-ifs at play. Challenge yourself to go beyond the perfect hypothetical stable business environments, and include other people in your decision-making process to get new and different perspectives.

Hidden Traps
Bad decisions can often be traced back to the way the decisions were made – the alternatives were not clearly defined or we missed the right information. But sometimes the fault lies not in the decision-making process but rather in the mind of the decision-maker. The way the human brain works can sabotage the choices we make. Harvard Professor John S. Hammond formulated six decision making traps.

Each of these traps can influence how we make decisions. Being aware of the potential traps and building tests and disciplines into our decision-making processes can assist.



Trap 1: Anchoring
We tend to give disproportionate weight to the first information we receive on a particular issue. In negotiating, for example, people will often center around the first offer even if this is not necessarily reasonable.
Tip: Avoid judging on the first impression and seek information from a variety of sources!

Trap 2: The Status Quo
In most cases, our decision making is biased towards the current situation (status quo), because it is the "safe" and comfortable option.
Tip: Ask yourself if you'd choose the status quo choice if it weren't the status quo!

Trap 3: Sunk Cost
Sunk costs have little to do with making a decision today as they relate to past costs and experiences, but they still are in our minds and often lead us to make inappropriate decisions. This trap relates to making choices in a way that justifies past, flawed choices.
Tip: Get views of people who weren't involved in the previous decisions!

Trap 4: Confirming Evidence
We often look for evidence or opinions that will support and justify our own position or decisions and place more weight on these issues than they deserve.
Tip: Ask somebody to play Devils' Advocate (taking the counter position)!

Trap 5: Framing

How a question is framed can have an impact on the answer you select. A common framing trap is to frame a question in terms of gains or losses. People tend to pick the decision that is formulated least risky regardless of the real content.
Tip: Pose questions in a neutral manner!

Trap 6: Estimating and Forecasting
Even though most of us are not very good at making proper forecasts, we actually tend to be overconfident about our accuracy. Additionally, we are overly influenced by vivid memories of past events when estimating.
Tip: Be disciplined in forecasting and use statistics instead of personal impressions!
The six traps can all work in isolation. But, even more dangerous, they can work in concert, amplifying one another. A dramatic first impression might anchor our thinking, and then we might selectively seek out confirming evidence to justify our initial inclination. We make a hasty decision, and that decision establishes a new status quo. As our sunk costs mount, we become trapped, unable to find a propitious time to seek out a new and possibly better course. The psychological miscues cascade, making it harder and harder to choose wisely.
The best protection against all psychological traps – in isolation or in combination – is awareness. Forewarned is forearmed. Even if you can't eradicate the distortions ingrained into the way your mind works, you can build tests and disciplines into your decision-making process that can uncover errors in thinking before they become errors in judgment.

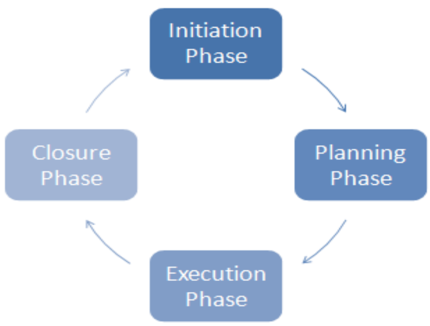
Project Management

This chapter provides a practical approach to what many consider a complex process: the management of projects. We will define project management and simplify the processes required to manage a project successfully from beginning to end.

Project Definition

What is a Project?
A project is "a unique endeavour to produce a set of deliverables within clearly specified time, cost and quality constraints". A project can be as small as moving your office or as complicated as moving your entire company from one location to another. It can involve one person or hundreds of people. There are, however, certain characteristics that most projects have in common. Some typical projects are launching a new product or process, implementing a new company software, replacing existing manufacturing equipment or reorganising a department, division, or organisation. Project Management is the skills, tools and management processes required to undertake a project successfully.
Projects differ from standard business operational activities:

- Projects are *unique* in nature. They are one-time events and they do not involve repetitive processes. Every project undertaken is different from the last, whereas operational activities often involve repetitive processes.
- Projects have a defined *timescale*. Projects have a clearly specified start and are required to be completed by a certain deadline.
- Projects have limited *resources*. An agreed budget as well as amount of labor, equipment and materials are allocated to the project. This limitation requires effective coordination of different people, resources, and processes.



- Projects involve an element of *risk*. Projects entail a level of uncertainty and therefore carry business risk should the project fail.
- Projects achieve beneficial *change*. The purpose of a project, typically, is to improve an organisation through the implementation of business change.

A simple way of approaching project management is to see it as a process with four major phases. We will explain each of these four phases on the following pages.

Phase 1: Initiation

The *Initiation Phase* is the first phase of the project. Before work on the project can be started, it's necessary to clearly define what the outcomes of the project will be. This involves not only what specifications and criteria the final project must meet, but when it must be completed and what the budget is. This will probably require some study and analysis, addressing questions about the project such as:

- What's the objective?
- What are the expected, required, and desired results?
- How will success be measured?
- What's the timeframe?
- What are the resource implications?

Essential to effective project management is a clear description of the *scope of the project* – what is included in the project, what is not included, and where the boundaries between the two are set – established at the start of the project. 'Scope creep' is the term for what may occur when the scope is not well defined: as the project progresses, it grows. It thus becomes more difficult to complete the project or satisfy the client.

Imagine you are a project manager in an American construction company and your firm won a contract to design and build the first copper mine in Northern Argentina. There is no existing infrastructure for either the mining industry or large construction projects in this part of South America.

During the initiation phase of the project, you should focus on defining and finding a project leadership team with the knowledge, skills, and experience to manage a large complex project in a remote area of the globe. You decide to open two offices: One in Buenos Aries to establish relationships and Argentinian expertise, and the second in Catamarca – the largest town close to the mine site. With offices in place, the project start-up team began developing procedures for getting work done, acquiring the appropriate permits, and developing relationships with Argentine partners.

Phase 2: Planning

Once the outcome of the project has been defined, the project enters the detailed *planning phase*. It's important to develop a plan of what work needs to be done, what resources are needed, who will do it, and when.

The level of detail needed in the plan will be determined by the complexity of the project and the number of people involved. The plan will probably not be followed exactly – things will happen that lead to adjustments and modifications. One reason for having the plan is to be able to see what needs to be adjusted when a task takes longer than expected or people or other resources are not available when needed.

In developing the plan, consider the specifications from the client and any required completion date, the budget, the best sequence of events (and whether any steps can be carried on concurrently), the staff needed and the need for any staff training for their part in the project.

The planning phase involves the creation of:

- a Project Plan (that outlines the activities, tasks, dependencies, and timeframes);
- a Resource Plan (that lists the labor, equipment, and materials required);
- a Financial Plan (that identifies the labor, equipment and materials costs);
- a Risk Plan (that highlights potential risks and actions taken to mitigate them); and
- a Communications Plan (that lists the information needed to inform stakeholders).

Two key components of any plan are *milestones* and *status reports*. A milestone marks the end of a stage or period of the project, and may also be tied to a project deliverable, a specific product provided to the client. During the planning, identify and establish milestones along the way to provide an indicator of progress and successes, and the impact of difficulties or delays that have been encountered. Also, establish a schedule and procedure for communicating the status and progress of the plan on a regular basis. Regular timely sharing of this information will allow the opportunity to adjust the plan and re-balance the quality, time and cost constraints.

During the planning phase, your project team develops an integrated project schedule that coordinates the activities of the design, procurement, and construction teams.

- The project controls team also develops a detailed budget that enabled the project team to track project expenditures against the expected expenses.

- The project design team builds the conceptual design and developed detailed drawings for use by the procurement team.
- The procurement team uses the drawings to begin ordering equipment and materials for the construction team; develop labor projections; refine the construction schedule; and set up the construction site.

Although planning is a never-ending process on a project, the planning phase focused on developing sufficient details to allow various parts of the project team to coordinate their work and allow the project management team to make priority decisions.
At this point, the project has been planned in detail and is ready to be executed.

Phase 3: Execution

The *execution phase* may be the longest and most visible phase of the project. It is during this stage that activities move from paper to more tangible components. It's important to monitor progress, track milestones, and regularly communicate the progress, delays, or detours, both internally to the project team and organisation, and externally to the client.

Monitoring progress and tracking milestones can mean inspecting and testing interim, partial, or pilot products, auditing work records, or holding progress review meetings to compare the original plan of what would be done when and by whom to the actual work and output.

During the execution phase, your project team accomplishes the work defined in the plan and makes adjustments when the project factors changed. Equipment and materials are delivered to the worksite, labor is hired and trained, a construction site is built, and all the construction activities, from the arrival of the first dozer to the installation of the final light switch, are accomplished.

Phase 4: Closure

The project *closure phase* involves releasing the final deliverables to the customer, handing over project documentation, terminating supplier contracts, releasing project resources and communicating the closure of the project to all stakeholders.
While whatever has been created or developed may go on, the project team's work is done. Activities at the closing of the project can be split into two categories: those for the client or stakeholder, and those for the team and organisation.

- *For the client*: Those who will be using the product need information to do their job effectively. This information includes training and documentation to be turned over to those responsible on a daily, ongoing basis for the new or revised process, system, or product. Also included is a formal sign-off that indicates the client has accepted the product or system.
- *For the project team*: Evaluate how the project management process worked and record lessons learned. Celebrate the completion of the project and the team's accomplishments. Then release or reassign the resources (staff, equipment, and facilities) to their regular jobs or to new projects.

The closure phase includes turning over the newly constructed plant to the operations team of the client. A punch list of a few remaining construction items is developed and those items completed. You close the office in Catamarca and the office in Buenos Aries archives all the project documents. You close the accounting books, write the final reports, and start with your next project. Good job!

Negotiation

A negotiation should never be a conflict in which one party wins and one party loses. Negotiation is about cooperation. Both parties should have the feeling that they have won something. The primary goal should be to achieve a deal that both parties can live with and that accomplishes your goals.

Negotiation Styles and Preparation

There are two major negotiation styles: *hard* and *soft bargaining.* Hard bargainers use a relatively aggressive negotiation style. The focus is on achieving own goals, whereas the other party's situation is unimportant. Soft bargainers, on the other hand, try to find solutions that appease all parties. They act more patient and more trustworthy.

Roger Fisher and William L. Ury, both Professors from Harvard Law School, recommend a negotiation style called *win-win negotiation*. As the name suggests, this technique fits into the category of soft bargaining styles. They base their principled negotiation, also called the Harvard method, on the following four points:

1. Focus on the interests of all parties, not their positions.
2. Separate the people from the issue.
3. Make a list of creative options that meet the interests of both parties.
4. Base the end result on an objective standard.

Here are some steps you should consider before the negotiation process starts:

- Choose a meeting location where you feel comfortable.
- Establish your goals and make sure, that they are realistic.
- Research the other party's members and their positions.
- Gather facts and information about the subject of the negotiation.
- Focus on the other side's interests to find win-win solutions.
- Try to find options that meet the interests of both parties.
- Define your "best alternative to a negotiated agreement" (BATNA)

What does the "best alternative to a negotiated agreement" (BATNA) mean? It is the exact point when the deal the other side is offering is no longer beneficial to you. For example, if you are negotiating about getting a job at firm A and you already have a job offer from firm B worth $40,000 per year, this salary is your current BATNA.

Negotiation Process and Traps

Regarding the negotiation process, there are some strategies and tricks you should consider:

- Make the other side feel comfortable and use small talk to break the ice.
- Use "active listening" (listen carefully, be patient, ask questions, show interest). Periodically repeat and summarise what they are saying so they will realise that you are taking them seriously and actually listening to them.
- Begin with those points most likely to be agreed upon and then proceed in descending order of what is likely to be agreed upon.
- Never give up "something for nothing." Always link something that you are asked to give up with something that you want.
- Try to see the other person's side and separate the people from the issue. Let the other party know that you are seeking a win-win resolution so that both parties gain rather than one party winning at the expense of the other.
- Don't be afraid to walk away, when you can't find an agreement.

Finally, there are some traps in negotiating that people may use while negotiating with you:

- In many cases, parties try to make even very small changes after both parties already agreed to all parts of a contract. This trick, often used to make minimal changes, is called nibbling.
- Using the good guy, bad guy-trick, one individual you are dealing with is a hard, aggressive bargainer whereas another one will try to make you believe he is working as a mediator.
- A party could set you an ultimatum to intimidate you and get you to sign the agreement quickly.
- By using the trick of limited authority, people may also offer you a deal, agree with you on it and pretend shortly before signing the contract, that their supervisor will only approve the deal for a slightly higher price.
- You should also be prepared for checking statistical data the other side shows you. Not all data is trustworthy.

Change Management

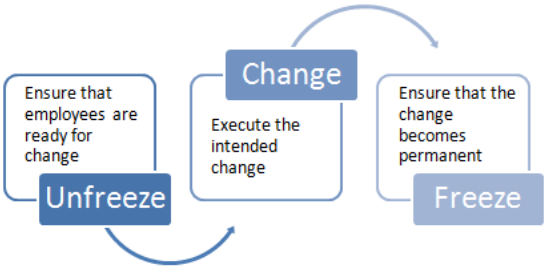
We live in a world where "business as usual" is change. New initiatives, technology improvements, staying ahead of the competition – these things come together to drive ongoing changes to the way we work. Here we will introduce the most important change management models.

Lewin: Three Phases Change Model

One of the most popular models for understanding organisational change was developed by Kurt Lewin. Lewin explained change using the analogy of changing the shape of a block of ice in three steps. If you want to change a cube of ice towards a cone of ice, you must…

- melt the ice ***(unfreeze),***
- mold the water into the shape you want (*change*), and
- solidify the new shape (*refreeze*).

Stage 1: Unfreeze
The first stage is about getting ready to change. It involves getting to a point of understanding that change is necessary and getting ready to move away from our current comfort zone. Key to this is developing a compelling message showing why the existing way of doing things (status quo) cannot continue. The more we feel that change is necessary, the more urgent it is, the more motivated we are to make the change. This first stage involves moving ourselves, or a department, or an entire business towards motivation for change. "Unfreezing" is usually difficult and stressful. When you start cutting down the way things are done, you put everyone and everything off balance.



Stage 2: Change
Change is not an event, but rather a process. That's why the second stage can also be called "transition". People are now moving towards a new way of being. They start to believe and act in ways that support the new direction. This is not an easy time as people are learning about the changes and need to be given time to understand and work with them. People need time to understand the changes and they also need to feel highly connected to the organisation throughout the transition period. It's important to keep communicating a clear vision of the desired change and the benefits to people.

Stage 3: Refreeze
This stage is about establishing stability once the changes have been made. The changes are accepted and become the new norm. This means making sure that the changes are used all the time; and that they are incorporated into everyday business. With a new sense of stability, employees feel confident and comfortable with the new ways of working. As part of the Refreezing process, make sure that you celebrate the success of the change – this helps them believe that future change will be successful.

Lewin's change model is a simple and easy-to-understand framework for managing change. You start by creating the motivation to change (unfreeze). You move through the change process by promoting effective communications and empowering people to embrace new ways of working (change). And the process ends when you return the organisation to a sense of stability (refreeze), which is so necessary for creating the confidence from which to embark on the next, inevitable change.

Kotter: 8-Step Change Model

Although Lewin's model helps to describe and understand change management, there are more detailed models that focus on how to "do" change. John Kotter, a professor at Harvard University and world-renowned change expert, identified eight stages of change a company must successfully complete to achieve lasting, sustainable business improvements.

Step 1: Create Urgency
During this first step, it is essential to ensure that the employees are motivated to participate. A change is only successful if the whole company really wants it. If you are planning to make a change, then you need to make others want it. Develop a sense of urgency around the need for change. This may help you spark the initial motivation to get things moving. Open an honest and convincing dialogue about what's happening in the marketplace and with your competition. If many people start talking about the change you propose, the urgency can build and feed on itself.

Step 2: Form a Powerful Coalition
Convince people that change is necessary. This often takes strong leadership and visible support from key people within your organisation. You can find effective change leaders throughout your organisation – they don't necessarily follow the traditional company hierarchy. To lead change, you need to bring together a coalition, or team, of influential people whose power comes from a variety of sources, including job title, status, expertise, and political importance. Once formed, your "change coalition" needs to work as a team, continuing to build urgency and momentum around the need for change. Make them feel that they are important within the team.

Step 3: Create a Vision for Change
Create a vision that clearly defines where the organisation is going. When you have a clear vision, your team members know why they are working on the change initiative and the rest of the staff know why your team is doing the change. A clear vision can help everyone understand why you're asking them to do something. When people see for themselves what you're trying to achieve, then the directives they're given tend to make more sense.

Step 4: Communicate the Vision
Creating a vision is not just enough for you to implement the change. You need to communicate your vision frequently and powerfully, and embed it within everything that you do. Talk about it every chance you get – this could be in meetings or just talking over the lunch. When you keep it fresh on everyone's minds, they'll remember it and respond to it. However, what you do is far more important than what you say. Demonstrate the kind of behaviour that you want from others.

Step 5: Remove Obstacles
No change takes place without obstacles. Always, there are people, who resist the change. Watch out for obstacles and remove them as soon as they appear. Put in place the structure for change and continually check for barriers to it. Removing obstacles will increase the morale of your team, and it can help the change move forward.

Step 6: Create Short-Term Wins
Give your company a taste of victory early in the change process. Quick wins are the best way to keep the momentum going, because nothing motivates more than success. Create not just one long-term goal but also short-term targets. By quick wins, your team will have great satisfaction and the company will immediately see the advantages of your change initiative.

Step 7: Build on the Change
Many change projects fail because victory is declared too early. Real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change. Each success provides an opportunity to build on what went right and identify what you can improve.
Step 8: Anchor the Changes in Corporate Culture
Finally, the change should become part of the core of your organisation. "In the final analysis, change sticks when it becomes the way we do things around here, when it seeps into the bloodstream of the corporate body" (John Kotter). Use mechanisms to integrate the change into people's daily life and corporate culture. It's also important that your company's leaders continue to support the change. If you lose the support of these people, you might end up back where you started.

Each of the steps that Kotter outlines in his process is important, but none may be as crucial as the first one. Kotter noted that for change to happen at least 75% of the company's management has to be on board. That's why it is so important to take the time and effort to build the urgency necessary to get others to buy-in to your change-related projects.

Responses to Change

In the constantly changing corporate world, the one who welcomes the changes stays ahead of the competition. But you have to work hard to change an organisation successfully. When you plan carefully and build the proper foundation, implementing change can be much easier, and you'll improve the chances of success. If you're too impatient, and if you expect too many results too soon, your plans for change are more likely to fail.

Create a sense of urgency, train powerful change leaders, build a vision and effectively communicate it, remove obstacles, create quick wins, and build on your momentum. If you do these things, you can help make the change part of your organisational culture. That's when you can declare a true victory.

Individuals often have three different *responses* to change. Some will be obvious in either their support (accelerators) or their opposition (resistors), while others accept the fact that some degree of change is inevitable (channellers).

- *Accelerators*: People in this group are interested in accelerating the changes they see coming. These are the people who typically feel marginalised or unfulfilled by the status quo and actually want change. Accelerators want to put the pedal to the metal for change, to really pour it on.
- *Resistors*: The second group are the Resistors who, as their name implies, are conservative with regard to some potential change and will resist that change. Resistors are typically those who derive their sense of self and place from the status quo (like Elites) and for whom any change from the current state of affairs is undesirable.
- *Channellers:* The third group are the Channellers. These are the stakeholders who recognise that change is coming, typically accept that some degree of change is inevitable, and therefore attempt to channel it as much as possible to align with their preferences and values.

Identifying resistance to change and managing it quickly is vital to your change management process; failure to do so can derail even the most carefully planned change. Reinforcing supporters alone will not guarantee a successful change process.

The first step to *overcoming resistance* is to understand why the resistance is there. The primary reason for resistance is that change requires employees to alter their existing individual and organisational identities. Once you have identified the true sources of resistance to the change, you can work to address them. This may require individual attention. Following are some tips for dealing with resistance once you've identified the cause.

- Ask the resisters to explain why they are resistant. You might learn something that you didn't know before and you could even improve the change process.
- Demonstrate the benefits of adapting to change. You might use personal gains such as potential salary increase, recognition, promotion opportunities, etc.
- If resistance is due to a general fear of what the change might mean to them, consider putting the resister on a team that is determining how to implement the change. For example, a front-line person may be afraid that upper-level decision-makers won't understand exactly how the change will impact them on a day-to-day basis. Putting this person on the implantation team lets them understand the process and can also provide valuable information.
- Discuss the change in broad-based meetings to put everyone on the same page and provide everyone with the same information.
- Although it is unpleasant to consider, individuals who stay resistant may have to leave the organisation. However, training new employees is more expensive and knowledge will be lost. Remember that most employees will eventually adapt to change if given the right incentives, the right information, and support.

Crisis Management

Crisis management is the process by which an organisation deals with a major threatening event. Whether an earthquake destroys infrastructure, computer hackers attack a company's website, or a key manager leaves the company with no replacement – all these events must be addressed immediately.

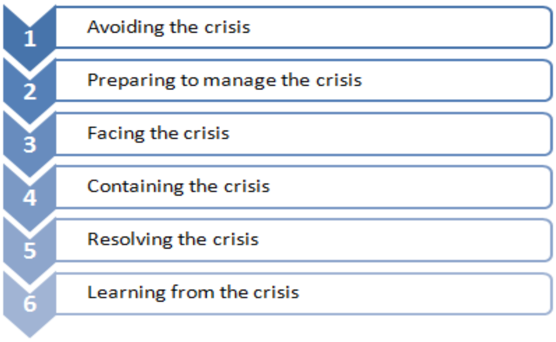
Many different models of Crisis Management exist in the public and private sectors. This section argues that Crisis Management can best be defined by the following six-stages process model:

Stage 1: Avoiding the Crisis

Crises are unpredictable, but they do not have to be entirely unexpected. As a manager, you have to prepare for crises when things are going well. Key to good preparation is not only crisis management planning but also the implementation of training and exercising.

- Include crisis planning in your overall strategic planning process and talk to people from other areas of your company about risks in your industry.
- Perform the SWOT analysis: Find strengths and weaknesses of your company as well as, environmental opportunities and threats for your business.

- Develop a crisis-risk list: What are the worst things that could go wrong? And what are the most likely crises that could occur?



Stage 2: Preparing to Manage the Crisis
In the second step, a manager should develop a crisis plan. Consider everything that might go wrong, and assess the costs if it should. After selecting a what-if scenario and possible consequences he/she should brainstorm the kinds of decisions that will have to be made.

- Perform a reality check on your plan by brainstorming possible side effects.
- Form a crisis-management team and create a communications plan with key persons.
- Think about what resources will be needed to handle the crisis.

Stage 3: Facing the Crisis
In this stage, you have to face unpleasant situations – things get serious! But is the current situation a crisis? In this stage, you have to characterise the event and evaluate the size of the crisis. Furthermore, you have to evaluate honestly how you manage the situation.

- Estimate the size of the crisis: How many people are involved? Who and where are they?
- Get a team in place as quickly as possible.
- Get all the information you can get about what's happening.

Stage 4: Containing the Crisis
The fourth stage is about damage control and communicating. You have to make decisions – and you have to make them quickly. Be on the scene and show physical presence, respond to your people and communicate critical information to them.

- Stop rumours and false information. Inform key people who need to know and do so quickly.
- Stick to the facts and Make your message straightforward and confident.
- Communicate honestly (otherwise people may blame you for failure).

Stage 5: Resolving the Crises
A crisis requires fast, confident decision making. Therefore, managers should not be paralysed when there are no standard operating procedures. Often, they just have to trust their judgment and take action. By making decisions, ensure that the safety of the people is always prioritised and that you grasp new developments.

- Focus on what is in your control and ignore what is not.
- Help everyone work together and draw people together to act as a team.
- Avoid blaming others.

Stage 6: Learning from the Crisis
Once the crisis has passed, you can use the experience and make changes to prepare for a similar crisis. A manager should review how the crisis was handled and plan ahead.

- Try to find out, if there were warning signals that you may have ignored.
- Evaluate what you did right and what you could improve.
- Get input from everyone.

Business Ethics
Business ethics deal with moral guidelines and good corporate governance. Companies are supposed to set high standards and adhere to certain common business practices. In this chapter, we will cover the essentials of business ethics, social responsibility, and sustainability.

Ethics and Law

Ethics are moral guidelines which govern good behaviour. Today, many people believe that business is in some way unethical or amoral. Various scandals all around the world concerning undesirable business activities, such as the despoiling of rivers with industrial pollutants, the exploitation of sweatshop workers, the payment of bribes to government officials, and the deception of unwary consumers have highlighted the unethical way in which some firms have gone about their business.

However, just because such malpractices take place, does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of as 'bad' ethics are still ethics of a sort. And clearly, it makes sense to try and understand why those decisions get made in the first place, and indeed to try and discover whether more acceptable business decisions and approaches can be developed.

Many everyday business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation. Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused to ever help each other.

Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government organisations, pressure groups, not-for-profit businesses, charities, and other organisations .

So behaving ethically is doing what is morally right. But the law is also about issues of right and wrong, correct? This is true, and there is an overlap between ethics and the law. Nevertheless, the two concepts are not equivalent and behaving ethically is not quite the same thing as behaving lawfully:

- Ethics are about what is morally right and what is morally wrong.
- Law is about what is lawful and what is unlawful.

Many moral issues are not explicitly covered by the law. For example, in many countries, there is no law preventing businesses from testing their products on animals, selling weapons to oppressive regimes, or preventing their employees from joining a union – decisions which many people would define as unethical.

Similarly, there are issues that are covered by the law, but are not really about ethics. For example, the law whether you should drive on the right or the left side of the road is not an ethical decision.

The problem of trying to make decisions in the areas of business ethics, or where values may be in conflict, means that many of the questions posed are ambiguous. There simply may not be a definitive 'right' answer to many business ethics problems. And as is the case with issues such as the animal testing of products, executive pay, persuasive sales techniques, or child labor, business ethics problems also tend to be very controversial.

So business ethics is not about learning specific procedures and facts in order to make objectively correct decisions – but it should help you to make better decisions.

Social Responsibility

Some managers believe that business's sole duty is to make profits. In their view, it is up to the government to determine what the laws should be. A profitable business benefits society by creating jobs, increasing the standard of living of its owners and its employees. Corporations pay the taxes that support government's social action.

Today, more and more experts tend to discourage this view. Business ethics rests on the assumption that businesses ought to adhere to a socially responsible approach to decision making called the social responsibility approach. Proponents of this approach believe that corporations have societal obligations that go beyond maximising profits.

Corporate Social Responsibility (CSR) deals with actions that affect a variety of parties in a company's environment. A socially responsible company shows concern for all its stakeholders—anyone who, like owners, employees, customers, and the communities in which it does business, has a "stake" or interest in it.

Corporate Social Responsibility (CSR) is a self-regulating business model that helps a company be socially accountable — to itself, its stakeholders, and the public.

Recognising how important social responsibility is to their customers, many companies now focus on and practice a few broad categories of CSR:

- Environmental efforts: One primary focus of corporate social responsibility is the environment. Businesses regardless of size have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society.

- Philanthropy: Businesses can also practice social responsibility by donating money, products or services to social causes. Larger companies tend to have a lot of resources that can benefit charities and local community programs.
- Ethical labor practices: By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility.
- Volunteering: Attending volunteer events says a lot about a company's sincerity. By doing good deeds without expecting anything in return, companies can express their concern for specific issues and support for certain organisations.

To accomplish various CSR goals, the founders of the American ice cream manufacturer Ben & Jerry's, Ben Cohen and Jerry Greenfield, created the "Ben & Jerry's Foundation." The company has set the bar high by giving 7.5% of its pretax profits to charitable organisations around the world. Ben and Jerry's strives "to show a deep respect for human beings" whether they work for the company or not. The foundation awards more than $1.8 million per year to fund community action, social change, and other sustainability initiatives.

Sustainability

Faced with growing global problems like environmental pollution, climate change, or waste disposal, it has been widely suggested that the goals and consequences of business today require radical re-thinking. One concept, in particular, appears to have been widely promoted as the new frame for assessing not only business activities, but industrial and social development more generally. That concept is sustainability.
For a long time, sustainability as a concept was largely synonymous with environmental sustainability. Today, the concept of sustainability has been broadened to include not only *environmental* considerations, but also *economic* and *social* considerations.

Sustainability refers to the long-term maintenance of systems according to environmental, economic and social considerations.
All businesses must make money. But some companies realise that they can do more. The triple bottom line (TBL) is a concept which broadens a business' focus on the financial bottom line to include social and environmental considerations. The concept was introduced in 1994 by John Elkington and the three bottom lines are often referred to as the three P's:

*People***:** Companies that follow the triple bottom line way of doing business think about the impact their actions have on all the people involved with them. This can include everybody from farmers supplying raw materials, on up to the CEO of the company. Everyone's well-being is taken into consideration. The company offers health care, good working hours, a healthy, safe place to work, and opportunities for education.
Planet: Triple bottom line companies take pains to reduce or eliminate their ecological footprint. They strive for sustainability, recognising the fact that "going green" may be more profitable in the long run. But it's not just about the money. Triple bottom line companies look at the entire life cycle of their actions and try to determine the true cost of what they're doing in regards to the environment.
*Profit***:** The financial bottom line is the one that all companies share, whether they're using the triple bottom line or not. When looking at profit from a triple bottom line standpoint, the idea is that profits will help empower and sustain the community as a whole, and not just flow to the CEO and shareholders.
In 2016 the Swedish furniture giant IKEA reported sales of $37.6 billion. The same year, the company turned a profit by recycling waste into some of its best-selling products. Before, this waste had cost the company more than $1 million per year.
Sustainable organisations recognise that profit isn't opposed to people or planet. According to J. Yarrow, IKEA's head of sustainability for the UK, "We don't do this because we're tree huggers, we do this because it's very cost-effective."
Though the triple bottom line has been around for decades, events such as the 2008 financial crisis, the BP oil spill, and climate change cast an almost constant spotlight on corporate ethics and corporate social responsibility. For companies, changing operations to minimise risk and fight climate change, requires a lot of time and money. But an upfront investment in corporate sustainability can pay off. Various studies prove that companies that treated sustainability seriously – by making a business case for it and setting concrete goals – were the ones that profited from sustainable activities.

Time Management

Time management is the process of planning and exercising control over the amount of time spent on specific activities – especially to increase effectiveness or efficiency. Traditionally, time management referred to just work activities, but today the term often includes personal activities as well.

A good time management system is a designed combination of processes, tools, techniques, and methods. Finding a time management strategy that works best for you depends on your personality, ability to self-motivate and level of self-discipline. By incorporating some of the ten steps below, you can more effectively manage your time:

1. Know How You Spend Your Time

Figure out how much time you usually spend on your activities and evaluate the results. Determine which tasks require the most time; determine the time of day when you are most productive; and analyse where most of your time is devoted.

2. Set Priorities

One of the easiest ways to prioritise is to make a "to-do" list. Put the most important tasks at the top and tackle them first. Just be careful not to allow the list-making to get out of control and do not keep multiple lists at the same time.

3. Use a Planning Tool

Use a personal planning tool to improve your productivity – and keep it with you. Examples of personal planning tools include electronic planners, pocket diaries, calendars, computer programs, notebooks, and your smartphone.

4. Get Organised

Disorganisation results in poor time management. Implement a system that allows you to handle information effectively. This is not only true for your desk and office bookcase, but also for your computer files and your emails.

5. Schedule Your Time Appropriately

Plan your most challenging tasks for when you have the most energy and block out time for your high priority activities. However, try to limit scheduled time to 70% of your day, leaving some time for creative activities such as planning, thinking, and reading.

6. Delegate: Get Help from Others

Identify tasks that others can do and then select the appropriate person to do them. Be specific in defining the work, but allow the person some freedom to personalise the task. Finally, don't forget to reward the person for a job well done.

7. Stop Procrastinating

Some tasks seem overwhelming, some seem unpleasant. Try breaking down the tasks into smaller segments that require less time commitment and result in realistic deadlines. If you're having trouble getting started, ask some colleagues for help.

8. Manage Time Wasters

Decrease or eliminate time spent on activities imposed by other people (e.g., don't schedule meetings unless they are necessary and ask employees to make appointments during periods when you have a lot of work to do).

9. Avoid Multi-tasking

Multi-tasking does not actually save time. In fact, the opposite is often true: You lose time when switching from one task to another, resulting in a loss of productivity. Stay focused on your current problem instead of trying to deal with ten problems at once.

10. Get time for yourself

The care and attention you give yourself is an important investment of time. Scheduling time to relax can help you rejuvenate both physically and mentally.

Regardless of the time management strategies you use, you should take time to evaluate how they have worked for you. Try to find a *healthy balance* between work and home life. Focus on the tasks that are most important in your life. Invest enough time in your own personal well-being. Always remember that successful time management today can result in greater personal happiness, greater accomplishments at home and at work, increased productivity, and a more satisfying future.

Case Studies & Conclusion

To complete this course and highlight its core concepts, we will take a closer look at the leadership approaches of Steve Jobs at Apple and Bill Gates at Microsoft. After that, we will discuss how the University of Oxford promotes sustainability. Finally, we will summarise the key takeaways of the course.

Case Study: Microsoft & Apple

Apple and Microsoft are two of the biggest companies in the world with each firm taking a different business approach from an organisational and philosophical perspective. The spectacular rise of both technology companies is directly linked with the history of their founders.

In 1955, two of America's most brilliant minds, Bill Gates (left) and Steve Jobs (right), were born and grew up in different environments which reflected on their leadership skills. However, both became successful business owners and they had a major thing in common: a passion for innovation in the world of computing technology.

Two Geniuses with Visions
Steve Jobs was a successful entrepreneur who co-founded *Apple*. His beginnings were humble pushing him to be self-made. In 1976, Steve Jobs and his friend Steve Wozniak launched their individual company in the garage of Jobs's home. They named it Apple Computer Company, in memory of happy summers which Jobs had spent picking apples. Jobs resigned at Apple in 1985 but returned in 1997 and served as the company's CEO until 2011.

Bill Gates was the chairman and CEO of *Microsoft*. He co-founded the company with his childhood friend Paul Allen in 1975. In 1980, Gates had his greatest opportunity, when IBM approached him to develop an operating system for its personal computer. In the early 1990s, Microsoft had sold more than 100 million copies of MS-DOS. Gates became the chief architect of Microsoft Windows and in 2014 he stepped down the chair to focus on his charity work.

Different Personalities
Bill Gates was driven by numbers, equations, and even economics. He was a software developer who always tried to develop new software using new technologies. Slowly, he pushed himself into the management role. Microsoft's philosophy under the leadership of Gates was "A computer on every desk in every house, running Microsoft software". Bill Gates was never as creative as Steve Jobs. Instead, he utilised the ideas and advice of his team to produce some of the biggest technology game-changers in the market.

Steve Jobs, on the other hand, was driven by studying people and finding out what makes their lives easier. His approach was futuristic; he thought about the future when he worked on his innovations. Apple's philosophy under the leadership of Jobs was "Make computer accessible to everyone and make it very easy to use". Jobs had a creative design mindset: He wanted to develop his products how he saw best fit.

Different Leadership Styles
Bill Gates used a democratic leadership style. He believed in the value of input from his employees for overall company success. He understood that in business you will have fluctuations and changes that you must adapt to in order to succeed. Through the process of delegation of tasks, Gates was able to develop a company that utilises the skills of his team members to the fullest.
Steve Jobs used an *autocratic leadership style.* He used to be the main person in charge of decision making and typically decided based on his ideas without collecting any inputs from his team members. Jobs understood the importance of taking risks and could be considered one of the biggest risk-taking leaders in the world. His rudeness was accompanied by an ability to inspirit Apple employees with a passion to create groundbreaking products and a belief that they could accomplish what seemed impossible.

Different Organisational Structures
The original organisational structure of *Microsoft* under the leadership of Bill Gates was *functional*. Through the process of delegation of tasks, Gates was able to develop a company that utilises the skills of his team members. Bill Gates also created a management system known as "stack ranking" to control and motivate Microsoft employees. This program classified employees as top performers, good performers, average, and poor. It turned out to be a destructive process and Microsoft decided to ditch the stack ranking system in 2012.
The organisational structure of *Apple* under the leadership of Steve Jobs was *highly centralised*. Jobs was in charge of all final tasks, supervisions and decision makings. This had definite impacts on the corporate culture of the company with specific levels of responsibility for employees. His top employees were more loyal to him than

those at most other companies. CEOs who study Jobs and decide to emulate his roughness without understanding his ability to generate loyalty make a dangerous mistake.

Conclusion
Microsoft and Apple both created some of the most successful products and services in the world. Apple's business model was always based on innovation and consumer-centric devices. Microsoft built its success on the licensing of software such as Windows and Office. However, the management approaches of Steve Jobs and Bill Gates were quite different. In the end, both were able to convert high-quality ideas into successful products.

Case Study: University of Oxford
The University of Oxford is a famous research university in Oxford, England. The history and influence of the University of Oxford have made it one of the most prestigious universities in the world. As of 2019, Oxford has educated many notable alumni, including 28 prime ministers of the United Kingdom and 72 Nobel Prize winners. With more than 23,000 students, 14,000 employees, and 230 buildings, the University of Oxford is a large organisation. Through its activities and actions, the university recognises its impact on the environment, locally, nationally and globally.

The university currently works to enhance its positive impact and reduce its negative impacts. It made a commitment within the Oxford University Strategic Plan to continue to deliver its sustainable targets. These targets will be met through continual improvement and evaluation.
The Sustainability Steering Group (SSG) of the university is responsible for the development of sustainability strategy and monitoring its delivery, while the day-to-day implementation of the sustainability initiative is managed by the Environmental Sustainability team.
During the last years, the university has identified seven key areas through which environmental sustainability shall be approached. These are:

- *Energy and Carbon Management* – by encouraging energy-efficient practices and investing in its estate to reduce carbon emissions. For example, it was able to decrease carbon intensity (carbon emissions/m²) from 2005 to 2015 by 33%. In the year 2016, the university also installed its 1000th solar photovoltaic panel to generate renewable energy.
- *Water Management* – by reducing water consumption through water-efficient practices and technologies. However, reducing consumption significantly remains extremely challenging for a large research organisation. Rainwater harvesting captures rain and uses it for operations such as flushing toilets.
- *Material Resources* – by encouraging preventing waste. As well as recycling and recovering waste, the university is also working to reduce waste production through reuse. The university developed a reuse platform through which University resources can be shared.
- *Sustainable Travel* – by reducing emissions from work-related travel and university-owned vehicles. The university seeks to reduce the number of car journeys and to improve the range of travel options. For example, the university decided to increase the cycle-share program Oxonbike and to upgrade its vehicle fleet.
- *Sustainable Buildings* – by making full use of available space and designing and refurbishing buildings in line with the university's Sustainable Building Philosophy.
- *Biodiversity* – by enhancing wherever possible wildlife habitat on university-owned land and supporting wider initiatives as appropriate.

- *Community* – by increasing awareness and understanding of environmental sustainability by staff and students and serving society by contributing and promoting the university's research and knowledge transfer on sustainability.

The university sets clear objectives and targets reviewed annually and supported by long-term strategies and plans. Every year, it publishes a detailed report about its current performance on these fields – including measurements of positive progress (targets achieved) as well as negative progress (targets missed).

The university received numerous awards and prizes for its sustainable initiatives by the Environmental Association for Universities and Colleges (EAUC) and the International Sustainability Campus Network since 2010.

Additionally to its internal sustainability program, the university cooperates with city authorities and other stakeholders in a network "to work towards Oxford City becoming a carbon-neutral city and a center of excellence for climate change adaptation and mitigation initiatives."

Summary

To be a great manager, you must have an extensive set of skills – from leadership skills to time management. Management skills can be defined as certain attributes or abilities that an executive should possess in order to fulfil specific tasks in an organisation. They include the capacity to perform executive duties in an organisation while avoiding crisis situations and promptly solving problems when they occur. Management skills can be developed through learning and practical experience as a manager.

While different roles and organisations require the use of various skillsets, essential management skills help a professional stand out and excel no matter what their level. In top management, these skills are essential to run an organisation well and achieve desired business objectives.

A manager who fosters good management skills is able to propel the company's mission and vision or business goals forward with fewer hurdles and objections from internal and external sources. Good management skills are vital for any organisation to succeed and achieve their goals and objectives.

We hope that this course gave you a good understanding and a complete overview of the most important management skills and that this will help you to succeed in today's business world and become a better.

MARKETING AND COMMUNICATIONS

Introduction

Welcome to Marketing & Communications!

From a societal point of view, marketing is the link between a society's requirements and its economic patterns of response. Marketing satisfies these needs through exchange processes and building long-term relationships.

Marketing can be looked at as an organisational function and as a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that benefit the organisation and its shareholders. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behaviour and providing superior customer value.

The set of engagements necessary for successful marketing management include:

- capturing marketing insights
- connecting with customers
- building strong brands
- shaping the market offerings
- delivering and communicating value
- creating long-term growth
- developing marketing strategies and plans

Noted Harvard Professor of Business Theodore Levitt states that the purpose of all business is to "find and keep customers". The only way you can achieve this objective is to create a competitive advantage. That is, you must convince potential buyers that what you have to offer them comes closest to meeting their particular need.

Every organisation has a set of functional areas (e.g. purchasing, manufacturing, finance, human resources, marketing, etc.) in which tasks that are necessary for the success of the organisation are performed. These functional areas must be managed if they are to achieve maximum performance. Marketing differs from the other functional areas in that its primary concern is with exchanges that take place in markets outside the organisation (e.g. customers, competitors, public relations, transport, etc).

Marketing is the creation, communication, and delivery of value as well as the management of customer relationships for a lifetime.

The Customer

In this chapter, we will focus on one of the most important essentials of marketing: the basic need, demand, want and value of customers. We will then discuss how customers make decisions and how exchanges take place between companies and their clients.

Customer Needs

Although many variations of the definition of marketing exist, they all include the same primary determinant: Success is achieved by meeting the customer's needs. All the time, effort, and money put into marketing aim to meet the needs of the customer.

- The most *basic needs* are those inherent to all human beings. For example, people have physiologic needs, for food, water, and sleep, in addition to safety, social, and personal needs.
- As individuals grow in their environment, and into their own personality, these needs become *wants*. For example, when someone is hungry, perhaps the person does not want a piece of bread with water, but a pizza with juice, because he has seen a commercial that advertised pizza and juice.
- The next question is, whether a person can actually afford to purchase the item. If yes, this then creates a demand for the product. A want combined with the ability to pay creates *demand*.
- When multiple purchase options are available, a multitude of factors play into the consumer's decision, such as price, personal tastes, and preferences. Ultimately though, a consumer most likely chooses the option that provides the most *value*. Value is typically viewed as the subjective relationship between the perceived benefits and perceived costs of a product or service.

In the quest to meet customer needs, wants, and demand, while providing maximum value, companies employ a wide array of activities to make their marketing more effective. Through their own interactions with their customer base, as well as the feedback through now mostly online media, companies can gauge the pulse of their customers on a day-to-day, real-time basis.

Truly successful marketing organisations use this market intelligence, and their own operational efficiency, to adapt to any situation, while continually focusing their energy and strategy on meeting the customer's needs.

Customer Decision Process

The Consumer or Buyer Decision-Making Process is the method used by marketers to identify and track the decision-making process of a customer journey from start to finish. It is broken down into five individual stages:

1. Need Recognition

The customer decision process begins with *need identification*. Whether we act to resolve a particular problem depends upon two factors: the magnitude of the discrepancy between what we have and what we need, and the importance of the problem. This involves the concept of consumer motivation, which is the internal drive consumers experience to fulfil conscious and unconscious wants and needs. Once the problem is recognised, it must be defined in such a way that the consumer can actually initiate the action that will bring about a relevant solution.

2. Information Search

The next step is *information search and processing*. After a need is recognised, the prospective consumer may seek information from family, friends, personal observation, consumer reports, salespeople, or mass media. The promotional component of the marketer's offering is aimed at providing information to assist the consumer in their problem-solving process. If the buyer can retrieve relevant information about a product, brand, or store, he or she will apply it to solve a problem or meet a need.

3. Evaluation

The criteria used in the *evaluation of alternatives* vary from consumer to consumer. One consumer may consider price the most important factor while another may put more weight upon quality or convenience. The search for alternatives is influenced by such factors as time and money costs, how much information the consumer already has, the amount of the perceived risk if a wrong selection is made, and the consumer's disposition toward particular choices.

4. Purchase

During the *purchase phase* of the decision-making process, the consumer may form an intention to buy the most preferred brand because he has evaluated all the alternatives and identified the value that it will bring him. Anything marketers can do to simplify purchasing will attract buyers. Providing basic product, price, and location information through labels, advertising, personal selling, and public relations is an obvious starting point. Product sampling, coupons, and rebates may also provide an extra incentive to buy.

5. Post-Purchase Evaluation

A consumer's feelings and evaluations after the sale come into play during the *post-purchase phase*. These feelings can influence customer retention and influence what the customer tells others about the product or brand. The marketer may take specific steps to reduce post-purchase dissonance. Advertising that stresses the many positive attributes or confirms the popularity of the product can be helpful.

The Customer Decision Process includes 5 stages: need recognition, information search, evaluation, purchase and post-purchase evaluation.

The Exchange Process

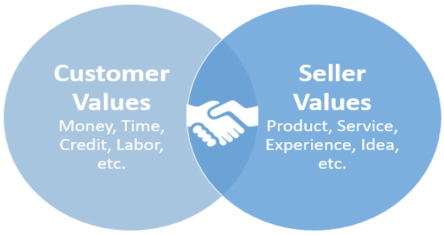
The exchange process is the act of obtaining a desired object from someone by offering something of value in return. The exchange between the person in need (i.e., someone who offers money, time, labor or some other personal resource) and the organisation selling the product, service, experience, or idea results in a transaction.

The top goal of any marketing organisation is to facilitate and help increase sales transaction by convincing potential consumers and existing customers to buy their company's product or service.

With the emergence of the internet, the nature of the marketing exchange has changed drastically. Today's consumers have access to far more and far better information. They also have many more choices. Businesses must provide personalised, relevant and high-quality content that competes with a fast, ever-changing competitive landscape.

The exchange process allows the parties to assess the relative trade-offs they must make to satisfy their respective needs and wants. For the marketer, analysis of these trade-offs is guided by company policies and objectives. For example, a company may engage in exchanges only when the profit margin is 10% or greater.

Customers also have personal policies and objectives that guide their responses in an exchange. Unfortunately, customers seldom write down their personal policies and objectives. Even more likely, they often do not understand what prompts them to behave in a particular manner. This is the mystery or the "black box" of customers behaviour that makes the exchange process so unpredictable and difficult for marketers to understand. When potential customers are not satisfied, the exchange falters and the goals of the marketer cannot be met. As long as customers have free choice and competitive offerings from which to choose, they are ultimately in control of the marketplace.



The potential customers, in commercial situations, "vote" (with their dollars) for the market offering that they feel best meets their needs. An understanding of how they arrive at a decision allows the marketer to build an offering that will attract buyers. Two of the key questions that a marketer needs to answer relative to buyer behaviour are:

- How do potential customers go about making purchase decisions?
- What factors influence their decision process and in what way?

The answers to these two questions form the basis for target market selection, and, ultimately, the design of a market offering and strategy that we will discuss later in this course.

Selling may be viewed as a process in which two individuals exchange items of value. In the most simple situation, the customer receives a product and the seller receives money. In reality, it is likely that buyer and seller exchange attributes with both physical and psychological values.

Evolution of Customer-Centred Marketing

The evolution from production-oriented organisations to marketing-oriented organisations was driven by a shift toward a marketplace that catered to meeting customer wants and needs rather than strictly delivering product features and functionality.

Product Orientation

The product orientation of marketing focuses solely on the product a company intends to sell. This orientation was popular during the 1950s. A firm employing a product orientation is chiefly concerned with the quality of its product. A firm such as this would assume that as long as its product was of a high standard, people would buy and consume the product. This approach stresses the research and development of products in order to maintain the attention of potential customers.

Selling Orientation

As opposed to product orientation, a firm using a sales orientation focuses primarily on the selling and promotion of a particular product. The successful management of the relationship between the company and its customers defines the act of sales. It creates value for customers. Emphasis is not placed on determining new consumer desires, as such. Consequently, this entails simply selling an already existing product and using promotion techniques to attain the highest sales possible. Approaching marketing with a selling orientation was popular for companies in the 1960s.

Marketing Orientation

Marketing orientation is a business model that focuses on delivering products designed according to customer desires, needs, and requirements, in addition to product functionality and production efficiency (i.e., product orientation). Beginning in the 1970s, Harvard Professor Theodore Levitt and other academics argued that the sales orientation model was ill-equipped to deliver products tailored to customer wants and needs. Instead of manufacturing products for the sole purpose of generating profit, they argued for businesses to shift their strategy toward developing products based on customers' desires, insights, and opinions.

Holistic Marketing

The holistic marketing concept looks at marketing as a complex activity and acknowledges that everything matters in marketing. The four components that characterise holistic marketing are relationship marketing, internal marketing, integrated marketing, and socially responsive marketing.

- *Relationship marketing* emphasises customer retention and satisfaction rather than a dominant focus on sales transactions.

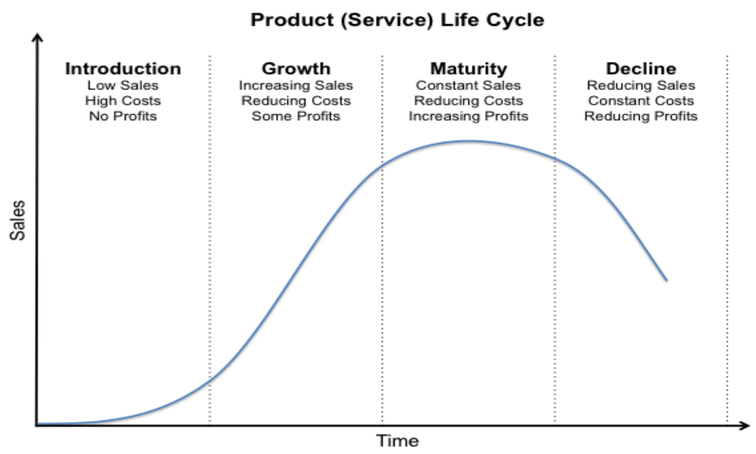
- *Internal marketing* is a process that occurs within a company or organisation whereby the functional process aligns, motivates, and empowers employees at all management levels to deliver a satisfying customer experience.
- *Integrated marketing* is an approach to brand communications where the different modes work together to create a seamless experience for the customer and are presented with a similar tone and style that reinforces the brand's core message.
- *Socially responsible marketing* is a marketing philosophy that states a company should take into consideration what is in the best interest of society in the present and long term.

Marketing Mix (4P)

The *Marketing Mix* is a tool invented by the American professor Neil Borden, to describe the different types of choices organisations have, when bringing a product or service to market.
The basic principles of Borden's model were refined over the years until professor and author E. Jerome McCarthy reduced them to four elements, called the "*Four Ps*" of marketing.

Product

As a company evolves, it must continually assess the customers' needs, to know whether it is providing the right product. In this course (as in the world of marketing) "products" can be both tangible goods or intangible services. In assessing which customers it wants to serve, a company gains direction in terms of the products or services it will offer.
The "*product life cycle*" is a frequently used model for analysing a product. It identifies the stages of a product, by observing sales volumes over time. Traditionally, the product life cycle charts the following four stages:



1. Introduction Stage
This stage of the cycle could be the most expensive for a company launching a new product. The size of the market is still small, although it will be increasing. However, the cost of development, production, and marketing can be very high, especially if it's a competitive sector.
2. Growth Stage
The growth stage is typically characterised, by strong growth in sales and profits, and the company starts to benefit. This makes it possible for businesses to invest more money in the promotional activity, to maximise the potential of this stage.
3. Maturity Stage
During the maturity stage, the product is established, and the manufacturer's aim is now to maintain the market share they have built up. This is probably the most competitive time, for most products and businesses need to invest wisely in any marketing they undertake.
4. Decline Stage
Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. The cause of this shrinkage could be, the market becoming saturated (i.e. all the customers who might buy the product, have purchased it already), or the consumers switching to a different type of product.

The stages of a product life cycle are: 1. introduction, 2. growth, 3. maturity, 4. decline

It is important to assess the life cycle of the products you sell. If, for example, most of your revenues come from products in the mature or decline phases of their life cycles, you'll be hard-pressed to grow your sales in the teeth of stable or declining demand. At the other extreme, if you're too reliant on new products, the lack of an established cash cow to pay for those products' marketing and R&D could sink you. Keeping a good mix of new, refreshed, and established products can help stabilise your revenues, and give you predictable growth.

Price

Now more than ever, consumers are price-conscious in almost all their purchases. For companies trying to market their goods or services, understanding customers' needs and wants as they relate to the price variable, is essential to survival. A great product priced too high will struggle; while a product priced too low, might be devalued in the marketplace, and hamper the company's profit and growth potential. Thus, it is important for companies to find the right price point that meets both the customer's, and the company's needs.

Marketers generally choose from one of the following four pricing strategies, or create some successive combination of these strategies:

1. Penetration Pricing:

Marketers often use penetration pricing to introduce a new product. In a penetration strategy, marketers set the price of an item as low as possible, to generate the greatest possible volume of sales for that product. The company uses penetration pricing, to motivate consumers to make their purchase decision based on price.

2. Perceived Value Pricing:

Perceived value is a pricing strategy, where marketers set the price to how valuable the customer believes the item to be, and therefore how much the customer is willing to pay for it. The gap between the cost to produce and the perceived value is irrelevant to this strategy. For this reason, it is most often used for luxury goods, like prestige fragrances.

3. Skimming Pricing:

In a skimming strategy, marketers set the price of the new product as high as the market will allow. Once the population segment that is not price-sensitive has been saturated, or the product has reached almost all those consumers who were ever going to buy it, marketers progress to incorporate a different pricing strategy.

4. Target Return Pricing:

Some companies measure the success or failure of a product based on the relationship of how much revenue, or in some cases profit, a product generates in relation to how much it costs to make the product. This measure is called return on investment, or ROI.

The strategy a firm uses to price a product or service, can and does vary from firm to firm, and from product to product within a firm. Clearly, marketing professionals weigh a host of factors before choosing one strategy. Aside from the features and quality of the product itself, price is the single most powerful variable in determining the success or demise of a product.

Today, beyond promotions and discounts, companies use dynamic pricing strategies on the internet, to capture even greater profits. Dynamic pricing is a "real-time" change in price, based on customer preferences and past purchasing habits. However, having different prices for the same product can backfire, if consumers become aware of it.

Place

From a marketing perspective, place, also often labeled as "distribution", refers to any activity designed to create value and utility by making the product(s) available. In any manufacturing industry, products must be made, packaged, and distributed to the point of sale.

If a product is a mass consumer product, it needs to be available as far and wide as possible. On the other hand, if the product is a premium consumer product, it will be available only in select stores. Similarly, if the product is a business product, you need a team which interacts with businesses and makes the product available to them.

A company could make the best product, but if it cannot get that product into the hands of the customers, then the company's potential success is at risk.

Important questions are:

- Where do buyers look for your product or service?
- If they look in a store, what kind of store? A specialist boutique or in a supermarket, or both? Or online?
- How can you access the right distribution channels?
- Do you need to use a sales force? Or attend trade fairs? Or make online submissions?

Promotion

Finally, promotion is the marketing mix variable most commonly recognised by the consumer, given its visual nature, such as in television advertising. Promotion, however, is not just a short television commercial or a massive

billboard. It functions as a company's communication arm, transmitting to consumers the other Ps – product, price, and place.
In today's world of digital and mobile technology, promotion takes many new forms while still including traditional media. Companies use a variety of outlets to promote their products (and/or services). The most common promotional methods used, include the following:

- Advertising:
  Advertising consists of the promotion of a given product, service, or message through mass media channels, such as newspapers, billboards, magazines, radio, internet, and television, and is used to both inform a given target market and persuade them, aiming at an increase in the use or sale of the company's products or services.
- Sales promotions:
  Sales promotions are found everywhere in society, such as 50% off, 0% financing, and the ever-popular "buy one, get one free." Sales promotions are used to persuade consumers, to buy the product or service at that specific moment in time, or while the sales promotion lasts.
- Personal selling:
  Personal selling involves a one-on-one interaction between an individual salesperson and a prospective client. Generally speaking, a company's sales force is meant for personal selling. For years, companies have employed sales personnel to develop solid relationships with the customers they serve.
- Direct marketing:
  Direct marketing is a much more focused and targeted promotion, than advertising. In the current market, direct marketing has greatly expanded its reach, because of the internet and mobile technology. These always-expanding channels, enable message customisation and personalised marketing messages to be directed at a specific person, place, and time.
- Public relations (PR):
  As its name implies, PR involves relating with the public, or those considered to be company stakeholders. PR efforts, such as press releases, sponsorship, and corporate literature, are used to generate positive attitudes and feelings, or goodwill, toward the company and its products and services.

Example: Starbucks Marketing Mix

Let's take a look at a short and simple example: the Marketing Mix of American coffee chain company Starbucks.
Product: Starbucks specialises in coffee and related beverages. The company sells coffee and espresso beverages, cold blended beverages, as well as a selection of premium teas. In addition, the firm also sells coffee-related accessories and equipment.
Price: Starbucks expects to maintain or lower the price of some of its most popular beverages, including certain espresso beverages; and, in most markets, its popular $1.50 tall brewed coffee. Furthermore, it anticipates raising prices of the labor-intensive, and larger-sized beverages.
Place: Starbucks coffees and teas were available in approximately 39,000 grocery and warehouse club stores, 33,000 of which were in the US, and 5,500 in international markets. In many cities, it is impossible to walk several blocks, and not run into a Starbucks store. Proximity and accessibility are some of the company's greatest assets.
Promotion: The company has gone to great lengths to create a "community atmosphere" among premium coffee lovers. The Starbucks reward program allows members to earn a free drink after a certain number of purchases at participating Starbucks stores. In general, Starbucks stresses quality above price, and other features it could emphasise .

New Models: 7P, 4C, SIVA

While the marketing mix was predominately associated with the traditional 4P's of marketing, new models such as the *7Ps model,* the *4Cs theory*, as well as the *SIVA model* try to build upon the 4P's model while increasing its explanatory power.

The Extended 7P's

In the late 70's it was widely acknowledged by marketers, that the marketing mix should be updated. This led to the creation of the Extended 7Ps Marketing Mix in 1981 by Booms & Bitner, which added three new elements to the 4 Ps model. The three new factors focus not on physical products, but services. That's why the 7Ps model is also called "service marketing mix.

The three new factors are:

- People:
  All companies are reliant on the people who run them, from front line Sales staff to the Managing

Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.

- Processes:
  The delivery of your service is usually done with the customer present, therefore, how the service is delivered, is once again part of what the consumer is paying for.
- Physical Evidence:
  Almost all services include some physical elements, even if the product is intangible. For example, a travel agency would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs), they are still receiving a kind of "physical evidence".

Though existing since the 1980s, the 7 Ps are still widely taught, due to their fundamental logic, being sound in the marketing environment, and marketers' abilities to adapt the marketing mix to include changes, such as in communications (social media), updates in selling locations, or customers' expectations.

Example: Starbucks Marketing Mix II

Let's go back to our Starbucks example.
What is the company's marketing mix concerning People, Process and Physical Evidence?
People:
Starbucks has a massive workforce. In addition, it plans to recruit around 240,000 more people worldwide. It is an equal opportunity employer who is committed to building a diverse workforce. Starbucks is also known for its investment in employee training and development. It is a customer-centric company, where customers are the focal point.
Process:

- For costumers: Starbucks is often a very busy place, and employees need to serve customers as efficiently as possible. The interaction with the customers begins with a greeting by a Starbucks employee. Customers will then place their food/drink order and make the payment. This is then followed by the order being served, and a farewell being given.
- For business partners: The Starbuck Company's International special activities, includes retail stores with licensing operations in more than 55 countries. Like other big chains such as McDonald's, Burger King or Subway, Starbucks operates primarily through joint ventures and licensing arrangements, with consumer products business partners. This enables Starbucks to expand fast while keeping financial risks of store closures to a minimum.

Physical Evidence:
The famous Starbucks Logo (which is green and features a partially nude siren) has stayed largely unchanged since its origin. However, it has been altered to adjust to international sensibilities. Their logo is well-known and can be seen all over major cities. Their presence and recognisability are very important assets of the company.

The 4C Model

The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. This relatively new approach to marketing shifts the focus from producer and product to the consumers and their needs. Instead of the focus on mass marketing of the traditional 4P marketing model, the 4C marketing model is aimed at niche marketing.
The idea behind it is that the more familiar a company is with the consumer, the better it can align its strategies and the greater its conversion rates will be. Because it is the customers who form a company's marketing mix, the 4C marketing model makes them the main focus.

- Consumer Solutions:
  A company should only sell a product, that addresses consumer demand. So, marketers and business researchers should carefully study the consumers' wants and needs.
- Customer Cost:
  According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience and opportunity cost is also part of the cost of product ownership.
- Convenience:
  The product should be readily available to consumers. Marketers should strategically place the products, for example in several visible distribution points.
- Communication:
  According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open, two-way dialogue, with potential clients, based on their needs and wants.

Whether you are using the 4Ps, the 7Ps, or the 4Cs, your marketing mix plan plays a vital role. It's important to devise a plan that balances profit, client satisfaction, brand recognition, and product availability. It is also extremely important to consider the overall "how" aspect, which will ultimately determine your success or failure.

SIVA Model

SIVA is a formal approach to customer-focused marketing. It stands for *Solution, Information, Value, and Access.* This system is basically the four Ps renamed and reworded to provide a customer focus. The SIVA Model provides a demand and customer-centric alternative to the well-known four Ps supply-side model of marketing management.

Solution

The "Product" in the four Ps model is replaced by "Solution" in order to shift focus to satisfying the consumer needs. The product is no longer a one-size-fits-all offering, but rather a solution created to solve a problem for the customer. The customer-centric focus allows customers to feel cared for because they are offered a custom solution.

Information

The "Promotion" in the four Ps model is replaced by "Information," which represents a broader focus. Information can include advertising, public relations, personal selling, viral advertising, and any form of communication between the firm and the consumer. The "I" also stands for "Incentives," such as trade promotions. A trade promotion is a marketing technique aimed at increasing demand for products based on special pricing, display fixtures, demonstrations, value-added bonuses, no-obligation gifts, et cetera.

Value

The "Price" in the four Ps model is replaced by "Value," reflecting the total value gained through purchasing the product. Value can be defined as the extent to which goods or services are perceived by customers to meet their needs or wants. It refers to the benefits a buyer receives when their needs are met. Value is measured in terms of a customer's willingness to pay for a product and often depends more on the customer's perception of a product's worth rather than its intrinsic value.

Access

The "Place" in the four Ps model is replaced by "Access". With the rise of the internet and hybrid models of purchasing, geography is becoming less relevant. Access takes into account the ease of buying the product, finding the product, finding information about the product, and several other factors.

Marketing Environment

In this chapter, we will assess the marketing environment. We will group and classify different groups of relevant stakeholders and discuss how to design, implement and evaluate different communication strategies to reach these stakeholders.

Communication to Stakeholders

Stakeholders are involved in or affected (negatively or positively) by the outcome and impact of a marketing action, project or program. Stakeholders can be divided into two main categories:

- Internal Stakeholders are engaged in economic transactions with the business (for example, stockholders, customers, suppliers, creditors, and employees).
- External Stakeholders are affected by or can affect a business's actions without being directly engaged in the business (for example, the general public, communities, activist groups, business support groups, and the media).

Marketing communication can be divided into two flows directed at different target audiences. This necessitates different yet compatible communication strategies. A company *cannot* be telling customers one story and stockholders another.
Preparing a good communication and marketing strategy for all stakeholders typically involves four key points:

- Determine stakeholder groups (defining the audience): List the key stakeholders that need information.
- Assess groups with stakeholder mapping: Once the stakeholders are clearly defined, you can deep-dive into assessing and grouping them. To do so, stakeholder mapping has proven to be the best method. You can visually organise and classify different stakeholders according to characteristics like significance, urgency, interest, etc.
- Define communication/marketing strategy per group**:** A flexible yet consistent strategy needs to be tailored for each stakeholder group.
- Measure the effectiveness of your communication/marketing strategy: If possible, the effectiveness of the strategy should be measured (with quantitative and qualitative methods).

Micro and Macro Environment

A successful marketing campaign increases a company's profits and helps it reach its strategic goals. However, there are challenges to marketing because the *business environment is constantly changing.* Customer preferences and attitudes keep evolving and require managers to adapt rapidly. Another challenge involves reaching different target markets with culturally relevant propositions.
Proactive attention to the environment allows marketers to prosper by efficiently marketing in areas with the greatest customer potential. *Reactive attention* to the environment, on the other hand, can lead to a disconnect with potential customers and can allow competitors to gain advantages that will win them a higher market share.
Two key levels of the marketing environment are the micro-environment (near environment) and the macro-environment (far environment):

The Micro Environment:
The micro-environment includes the company itself, its suppliers, marketing intermediaries, customer markets, and competitors. It also includes consumers, collaborators, and centres of influence. Let's take a closer look at three of them:

- The *company* aspect of micro-environment refers to the internal environment of the company. Each internal department has an impact on marketing decisions. For example, research and development has input on the features a product can have, and accounting approves the financial side of marketing plans and budgets.
- The *suppliers* of a company are also a part of the micro-environment because even the slightest delay in receiving supplies can result in customer dissatisfaction. Examples of suppliers for such companies as automobile manufacturers would include providers of steel, aluminium, leather, and even audio system manufacturers.
- *Competitors* include companies with similar offerings for goods and services. To remain competitive, a company must consider who their biggest competitors are and simultaneously consider its own size and position in the industry. The company should aim to develop a strategic advantage over their competitors.

The Macro Environment:
The macro-environment includes concepts such as demography, economy, natural forces, technology, politics, and culture.

- *Demography* refers to studying human populations in terms of size, density, location, age, gender, race, and occupation. This helps to divide the population into market segments which can be beneficial to a marketer in deciding how to tailor their marketing plan to attract that demographic.
- The *economic* environment refers to the purchasing power of potential customers and the ways in which people spend their money.
- *Technology* includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. As these markets develop, it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology.
- The *political* environment includes all the laws, government agencies, and groups that influence or limit organisations and individuals within a society. It is important for marketers to be aware of these restrictions as they can be complex and can change often. For example, regulations on packaging, such as the necessary inclusion of ingredients for food products or the limitation on product capability claims, must be understood by marketers to avoid negative public perception or sanctions.
- The *cultural* environment consists of institutions and the basic values and beliefs of a group of people. The values can also be further categorised into core beliefs, which are passed on from generation to

generation and are very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing campaign to reflect the values of a target audience.

Since the business environment is constantly changing and customer preferences keep evolving, marketers are required to adapt rapidly. It is important to place equal
emphasis on both the macro and micro-environment and to react accordingly to changes within them.

B2B and B2C Marketing

There is a difference between marketing to businesses and marketing to consumers. Business-to-Business *(B2B)* markets differ from Business-to-Consumer (*B2C*) markets in many ways and thus require different marketing actions.

For one, the *number of products* sold in business markets dwarfs the number sold in consumer markets.

Suppose you buy a computer from Dell. The sale amounts to a single transaction for you. But think of all the transactions Dell had to go through to sell you that one computer. Dell had to purchase many parts from many computer component makers. It also had to purchase equipment and facilities to assemble the computers; hire and pay employees; pay money to create and maintain its website and advertisements; and buy insurance, accounting, and financial services to keep its operations running smoothly. Many transactions had to happen before you could purchase your computer.

Business marketing generally entails *shorter and more direct channels of distribution.* While consumer marketing is aimed at large groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing. A single customer can account for a huge amount of business. Some businesses, like those that supply the U.S. auto industry, have just a handful of customers, i.e., General Motors, Chrysler, Ford, etc.

However, B2B and B2C marketing do share some basic principles. Namely, the marketer must always:

- successfully match the product or service strengths with the needs of a definable target market
- position and price to align the product or service with its market, often an intricate balance
- communicate and sell the product in the fashion that demonstrates its value effectively to the target market

Marketing Strategies

Identifying the right strategy to market your business can be challenging. How do you get your message to the right audience effectively, and how do you beat your competitors? In this chapter, we will discuss how to choose the best marketing strategy for your product or service.

Creating a Strategy

The benefits of a planned marketing strategy are numerous. Business owners often rely solely on their intuition to make business decisions. While this informal knowledge is important in the decision-making process, it may not provide you with all the facts you need to achieve the best marketing results.

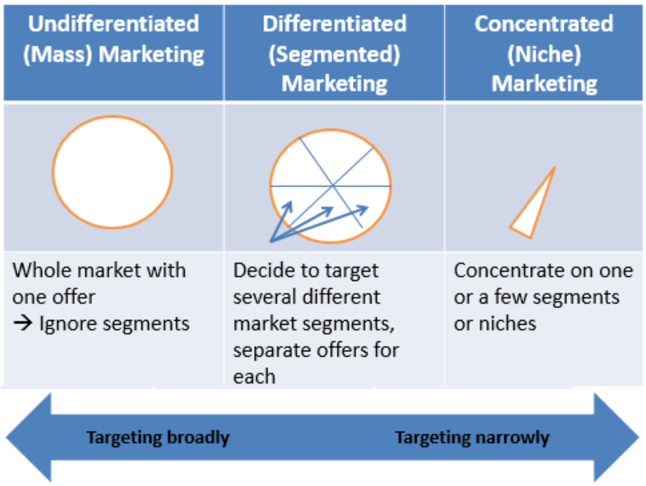
A marketing strategy will help you define business goals and develop activities to achieve them. Creating a marketing strategy generally involves the following *six steps:*

- *Information Gathering*: Research potential customers, their needs and spending habits in order to understand what sort of product, service or idea they wish to buy. A specific method of information gathering is targeting, which is the process of finding customers whose needs and preferences match the product range offered by a company.
- *Evaluation of Organisation Capabilities:* Decide what your organisation can produce and what your organisation is not capable of producing based on the organisation's specific strengths and weaknesses.
- *Identify Market Opportunities*: Research the current market for a product idea with no competition or strong demand.
- *Set Objectives of Marketing Strategy*: Decide what results need to be achieved in order to reach the organisation's goals. An objective is a specific result that an organisation aims to achieve within a certain time-frame and with available resources.
- *Formulate an Action Plan*: List the specific steps the organisation needs to take to implement the marketing plan and assign the responsibilities to specific staff members. One such step is product positioning, which is the process by which marketers try to create an image or identity in the minds of their target market. Action plans should be based around the 4 Ps of marketing or SIVA analysis.
- *Monitor & Evaluate*: Study the marketing plan at least once per quarter to track performance against the set objectives.

Everyone knows you need a business plan, yet many entrepreneurs don't realise a marketing plan is just as vital. Unlike a business plan, a marketing plan focuses on winning and keeping customers; it's strategic and includes numbers, facts, and objectives. A good marketing plan spells out all the tools and tactics you'll use to achieve your sales goals. It's your plan of action—what you'll sell, who'll want to buy it and the tactics you'll use to generate leads that result in sales.

Three Main Marketing Strategies

There are different types of marketing strategies, and every marketing manager should decide what's the appropriate one. This step is important because it has a big impact on the marketing mix. A manager needs to pick one of the following marketing strategies:



1. Mass Marketing

This is a "push" market strategy, in which segmentation is completely ignored, and an attempt is made to reach the largest possible number of potential customers. This technique relies on the persuasion potential of communication. Traditional mass marketing methods are radio, television, and print advertising.

Coca Cola's original marketing strategy was based on this format, at a time that they offered only one product, which they believed had universal appeal. However, now that Coca Cola has introduced other products, it has changed its marketing strategy to differentiated marketing.

2. Differentiated Marketing

This marketing strategy is also known as a multi-segment marketing strategy. Each customer segment is handled uniquely so that you target each customer segment with a different solution. This strategy keeps your team more focused and is more efficient in spending your marketing dollars.

An airline company offering first, business, and economy class tickets, with separate marketing programs to attract customers for each of the ticket types, is an example of a differentiated marketing strategy.

3. Concentrated Marketing

This strategy targets a single well-defined segment of the customer population. The marketing costs are low, but so is your sales potential. It is particularly effective for small companies with limited resources, as it does not believe in the use of mass production, mass distribution, and mass advertising.

The car-manufacturer Rolls Royce only targets the premium segment of the car market.

Tool: Ansoff Opportunity Matrix

The Ansoff Matrix is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.

According to this tool, there are four possible combinations for growth. Each company needs to decide which strategy to use based on the strengths and weaknesses of the organisation and its competitors. Each strategy has a different level of risk, with market penetration having the lowest risk and diversification having the highest risk.

Market Penetration

This occurs when a company infiltrates a market in which current products already exist. The best way to achieve this is by gaining the customers of competitors. Other ways include attracting non-users of your product or convincing current clients to use more of your product.

While market penetration may come with the lowest risk, at some point the company will reach market saturation with the current product and will have to switch to a new strategy.

Market Development
Market development targets non-buying customers in currently targeted segments. It also targets new customers in new segments in order to expand the potential market. New users can be defined as new geographic, demographic, institutional, or psychographic segments.
If a company believes that its strength lies with its products and they believe their products would be enticing to new customers, then a company may want to use a market development strategy.
New Product Development
New product development is a process that has two parallel paths: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in the overall strategic process of product life cycle management used to maintain or grow market share.
If a company believes that its strength lies with the customers, then they should consider a product development strategy.
Diversification
Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets. At the business unit level, diversification is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally via investing in a promising business outside of the scope of the existing business unit.
Because of the high risk involved with diversification, many marketing experts believe a company shouldn't attempt diversification unless there is a high return on investment.

The Ansoff Matrix is a useful tool for organisations wanting to identify and explore their growth options. It is one of the most commonly used tools for this type of analysis due to its simplicity and ease of use.

Implementing Global Strategies

We are seeing the emergence of an interdependent global economy. This global market is characterised by faster communication, transportation, and financial flows, all of which are creating new marketing opportunities and challenges. Companies recognise that worldwide competition, international marketing trends, and Internet technologies must be considered when launching campaigns both domestically and internationally.
As a result of this rapid shift towards an integrated, global economy, brands must adjust all aspects of the marketing mix to fit local tastes and needs, while maintaining a consistent product and brand image.

Oxford University Press defines a global marketing strategy as "marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives. "
The four "P's" of marketing–product, price, placement, and promotion–are affected as a domestic or multinational company adjusts its strategy to become a global company. At the global marketing level, global marketing plans must be tailored so that companies speak in many voices rather than just one. Developing marketing plans for different regions gives companies flexibility when reacting against competition or defending their position (market leadership, low-cost provider, etc.) in a particular market.

- *Product*: A global company will have to tweak certain elements of its products for different markets. Even a single product will need to be modified according to the market it will be sold in. Product packaging features, including colour, shape, and form, may be similar. However, messaging and language are tailored according to the country's native language and customs.
- *Price:* Because it is affected by several variables, the price will always vary from market to market. For example, cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and other variables will determine product pricing. Product positioning, including whether the product is high-end, low-cost, or middle ground, compared with competing brands also influences the ultimate profit margin.
- *Placement:* Product distribution will also be determined by local and global competition, as well as the product's positioning in the marketplace. For example, brands would not want to place high-end products in "dollar stores" in the United States. Likewise, a low-cost product in France would find limited success in an expensive boutique.
- *Promotion*: After product research, development and production, promotional tactics, such as advertising, are generally the largest line item in a global marketing budget. An integrated marketing communications (IMC) strategy is key to achieving marketing goals, since IMC reduces costs, minimises organisational redundancies, maximises the speed of implementation, and unifies brand messaging.

The global economy provides many *advantages* for companies that are able to introduce their products on a global scale while customising their marketing strategies for different languages, cultures, and socio-economic demographics. Nevertheless, many companies struggle with meeting the *challenge* of a larger and more complex marketplace:

Advantages	*Challenges*
▪ Economies of scale in production and distribution ▪ Lower marketing costs ▪ Enhanced power and scope ▪ Consistency in brand image ▪ Ability to leverage good ideas quickly and efficiently ▪ Uniformity of marketing practices	▪ Differences in consumer needs and wants ▪ Differences in brand and product development and the competitive environment ▪ Differences in the legal environment, which may conflict with laws in the home market ▪ Differences in product placement or distribution channels

Segmentation & Positioning

Segmentation allows marketers to divide a market of potential customers into different groups that share similar characteristics. They then try to position the product by carrying out consumer surveys and extensive research in order to find the perfect product-market fit.

STP Process

The STP process is an important concept in the study and application of marketing. The STP process demonstrates the links between an overall market, and how a company chooses to compete in that market. STP stands for the three main steps: segmentation, targeting, and positioning.

Step 1: Segment your market

Your organisation, product, or brand can't be all things to all people. That's why you need to use market segmentation, and divide your customers into groups of people with common characteristics and needs. This allows you to tailor your approach, and meet each group's needs cost-effectively, which gives you a huge advantage over competitors who use a "one size fits all" approach. There are many ways to segment your target markets. For example, you can use the following approaches:

- *Demographic Segmentation* – By personal attributes such as age, marital status, gender, ethnicity, sexuality, education, or occupation.
- *Geographic Segmentation* – By country, region, state, city, or neighbourhood.
- *Psychographic Segmentation* – By personality, risk aversion, values, or lifestyle.
- *Behavioural Segmentation* – By how people use the product, how loyal they are, or the benefits that they are looking for.

Step 2: Target your best customers

Next, you decide which segments to target by finding the most attractive ones. It can take a lot of effort to target a segment effectively. Choose only one segment to focus on at any one time. There are several factors to consider here.

- First, look at the *profitability* of each segment. Which customer groups contribute most to your bottom line?
- Next, analyse the *size and potential growth* of each customer group. Is it large enough to be worth addressing? Is steady growth possible? And how does it compare with the other segments? (Make sure that you won't be reducing revenue by shifting your focus to a niche market that's too small.)
- Last, think carefully about how well your organisation can service this market. For example, are there any legal, technological or social *barriers* that could have an impact? Conduct an environmental analysis to understand the opportunities and threats that might affect each segment.

Step 3: Position your offering

In this last step, your goal is to identify how you want to position your product to target the most valuable customer segments. Then, you can select the marketing mix that will be most effective for each of them. According to Michael Treacy and Fred Wiersema, two famous marketing experts, most successful firms fall into one of three categories:

- *Operationally excellent firms*, which maintain a strong competitive advantage by maintaining exceptional efficiency, thus enabling the firm to provide reliable service to the customer at relatively low costs.
- *Customer intimate firms*, which excel in serving the specific needs of the individual customer well. There is less emphasis on efficiency, which is sacrificed for providing more precisely what is wanted by the customer.
- *Technologically excellent firms,* which produce the most advanced products currently available with the latest technology, constantly maintaining leadership in innovation.

Market segmentation is the process of dividing a broad market into sub-groups of consumers (known as segments) based on some type of shared characteristics. Targeting involves concentrating your marketing efforts on one or a few key segments. Positioning refers to the place that a brand occupies in the mind of the customers and how it is distinguished from products from competitors.

Perceptual Mapping

One of the biggest headaches for marketing professionals is deciding where a new product or service fits into the marketplace. In this lesson, we will show how your business can benefit from using perceptual maps to decide where to position your product or service against those of the competitors.
Perceptual mapping is a diagrammatic technique used by marketers, in an attempt to visually display the perceptions of potential customers. Typically, the position of a product, product line, brand, or company is displayed relative to their competition. This kind of visual representation can give valuable information about the current position, as well as the future strategy of a company.
The data for perceptual maps comes from customer surveys of products or services – customers are typically asked to rate their views on various criteria such as:

- Performance
- Ease of use
- Price
- Reliability
- Quality
- Customer support

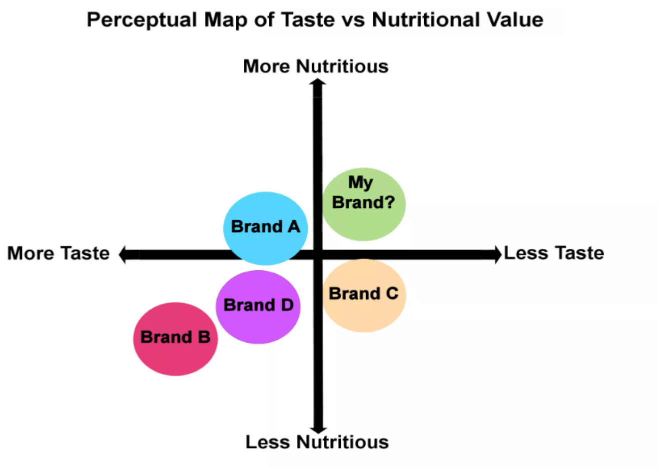
Survey results are compiled and plotted on a graph according to their scale values. These graphs commonly have two dimensions. In the example below, customer perceptions of price versus quality for three different brands are displayed on a graph, providing an excellent visual representation of how brands can be differentiated in the minds of consumers.

Aside from price versus quality, perceptual maps can be made for a variety of product/service attributes. For example:

- Trucks: Towing capacity versus fuel consumption
- Landscaping services: Appearance versus effect on the environment
- Coffee: Price versus sustainability
- Food/drink: Taste versus sugar or salt content
- Hotels: Price versus location, amenities, etc.

As an example, let's say you think you have developed a winning recipe for a granola bar and wish to use perceptual mapping to help you decide where to position the product in the marketplace.

- Define the attributes that are of the highest importance to the consumer and will influence their purchasing decisions. In this example, we have decided to use taste and nutritional value as the determinant attributes.
- Compile a list of the competing products that will be included in your market survey and plotted on your perceptual map. Depending on the product a minimum of four or five competitors should be surveyed, preferably those with the largest market share.
- Develop a rating scale for the determinant attributes (in this case taste and nutrition) and distribute the survey to customers. A simple 1-5 rating works well.
- Once you have your perceptual map, you will need to determine where to position your product versus the competition – preferably where there appears to be a gap in the marketplace.



In the above example, you may decide that a segment of the market would prefer to sacrifice a degree of taste for more nutrition. Competing for head to head with another brand is generally risky, but the price may enter into the decision. You may be able to take market share from a competing product that has the same or similar attribute rankings if you are able to set the price of your product sufficiently low enough.

BCG Matrix

The BCG Matrix, named after its inventors from Boston Consulting Group, assess products on two dimensions. The first dimension looks at the products general level of *growth* within its market. The second dimension then measures the product's *market share* relative to the largest competitor in the industry. Analysing products this way provides a useful insight into the likely opportunities and problems with a particular product.
Products are classified into four distinct groups: Stars, Cash Cows, Question marks, and Dogs.

Let's have a look at what each of these four outcomes means for the product and the decision making process:

- *Stars*: Star products all have rapid growth and dominant market share. This means that star products can be seen as market-leading products. These products will need a lot of investment to retain their position, to support further growth as well as to maintain its lead over competing products. Star products will also be generating a lot of income.
- *Cash Cows:* Cash cows don't need the same level of support as stars. This is due to less competitive pressures within a low growth market where they usually enjoy a dominant position. Cash cows are still generating a significant level of income but are not costing the organisation much to maintain. These products can be "milked" to fund Star products.
- *Dogs:* Products classified as dogs always have a weak market share in a low growth market. These products are very likely making a loss or a very low profit at best. The question for managers is whether the investment currently being spent on keeping these products alive could be spent on making something that would be more profitable.
- *Question Marks (also called Problem Children):* These products are in a high growth market but do not seem to have a high share of the market. One reason for this might be that a very new product was

recently added to the market. If this is not the case, then some questions need to be answered. What is the organisation doing wrong? What are competitors doing right?

The BCG Matrix is easy to perform, it helps to understand the strategic positions of the business portfolio, and it's a good starting point for further analysis. Nevertheless, this growth-share analysis has been heavily criticised for its oversimplification. Market growth is one of many factors that determine industry attractiveness and relative market share is only one of many factors that determine competitive advantage. This matrix does not take into account any other factors that may have a bearing on both industry attractiveness and competitive advantage.

Example: BCG Matrix for Nestle
The BCG matrix analysis for Nestle reveals some interesting perspectives. As a global multinational in the food and beverage industry, the Swiss company is one of the biggest corporations in the world. Over 8000 brands fall within its umbrella and are as widespread as bottled water and pet food. The company announced plans to sell off under-performing brands which were consistently showing poor sales.
Question Marks:
There are products that formulate a part of the industry that is still in the phase of development, yet the organisation has not been able to create a significant position in that industry. The small market share obtained by the organisation makes the future outlook for the product uncertain, therefore investing in such domains is seen as a high-risk decision. With increasing competition and growing need to consume healthy products among consumers, Nestle's Milk products and Nutrition requires significant investment from the brand to maintain and grow its market share. Nestle's Chocolates and confectionaries is another business unit that can be placed in the Question Mark quadrant of the BCG Matrix of Nestle. High competition and small market share of the product in the industry is what makes it being placed in this quadrant.
Stars:
The products or business units that have a high market share in high growth industry are the stars of the organisation. In the case of Nestle, Nestle's Mineral Water and Nestle's Nescafe Coffee fall in the Star quadrant of the BCG Matrix of Nestle. Growing healthier lifestyle trends and emerging markets have prompted the brand to invest large amounts of investments in order to differentiate the bottled water brands from competitors in mature markets and grow brand awareness in emerging markets.
Dogs:
Dogs are those products that were perceived to have the potential to grow but however failed to create magic due to the slow market growth. Failure to deliver the expected results makes the product a source of loss for the organisation, propelling the management to withdraw future investment in the venture. Since the product is not expected to bring in any significant capital, future investment is seen as a wastage of company resources, which could be invested in a Question mark or Star category instead. Nestle's Milo was launched as chocolate and malt powder for Milk and water, however, the product failed to create any significant impact on the business and is placed in the Dog Quadrant of BCG Matrix of Nestle.
Cash Cows:
Cash cows are the products that have a high market share in a market that has low growth. For Nestle, there is one product that has undoubtedly been the Cash Cow and its Nestle's Maggi Noddles. With a market share of 80-85 %, Maggi Noddles holds a very stronghold in the market and have high customer loyalty. The product requires very less investment to maintain its market share and fight off any competition.

The BCG matrix helps organisations determine which areas of their business deserve more resources and investment. This is especially helpful for corporations like Nestle that offer a broad range of products in many different markets.

Customer Value Analysis

To deliver value to their customers, marketers must consider what is known as the ***"total market offering."*** This includes the reputation of the organisation, staff representation, product benefits, and technological characteristics as compared to the market offerings and prices of competitors. Value, in this sense, can be defined as the relationship of a firm's market offerings to those of its competitors.
Value in marketing can be defined by both qualitative and quantitative measures. On the *qualitative* side, value is the perceived gain composed of an individual's emotional, mental, and physical condition plus various social, economic, cultural, and environmental factors. On the *quantitative* side, value is the actual gain measured in terms of financial numbers, percentages, and dollars.
One way for an organisation to increase its *perceived value* to show consumers that its products will help them solve a problem, offer a solution, produce results, make them happy, and comes at a great quality-price-ratio.

To reveal the company's strengths and weaknesses compared to other competitors, it is important to conduct a *customer value analysis*. This is the collection and evaluation of data associated with customer needs and market trends. The steps are as follows:

- Identify the major attributes and benefits, such as ease of use or improved social standing, that customers value for choosing a product. It is important to identify and define benefits as opposed to features.
- Assess the quantitative importance of the different attributes and benefits. In other words, attempt to assign an actual price differentiation for products with value-adding benefits.
- Assess the company's and competitors' performance on each attribute and benefit. It is important to be honest with yourself about who your actual closest competitors are and how they price their products.
- Examine how customers in the particular segment rated the company against major competitors on each attribute.
- Monitor customer perceived value over time.

Example: customer value analysis of smartphone operating systems

The customer value analysis identifies a firm's key competitors and compares them using industry's critical success factors. The analysis also reveals a company's relative strengths and weaknesses against its competitors, so a company would know which areas it should improve and which areas it should protect. An example is demonstrated below.

		Android OS		iOS		Windows Phone	
Critical Success Factor	Weight	Rating	Score	Rating	Score	Rating	Score
Market share	0.13	4	0.52	2	0.26	2	0.26
Number of apps in store	0.10	4	0.40	4	0.40	2	0.20
Frequency of updates	0.06	3	0.18	4	0.24	2	0.12
Design	0.07	3	0.21	3	0.21	3	0.21
Product brand reputation	0.05	3	0.15	3	0.15	2	0.10
Distribution channels	0.11	4	0.44	2	0.22	3	0.33
Usability	0.11	3	0.33	3	0.33	3	0.33
Customization features	0.04	4	0.16	2	0.08	2	0.08
Marketing capabilities	0.04	2	0.08	4	0.16	2	0.08
Company brand reputation	0.10	4	0.40	4	0.40	3	0.30
Openness	0.02	4	0.08	2	0.04	2	0.04
Cloud integration	0.12	4	0.48	2	0.24	2	0.24
Rate of OS crashes	0.08	1	0.08	4	0.32	3	0.24
Total	1.00	-	3.51	-	3.05	-	2.53

The analysis reveals that Android is the strongest player in the industry with relative strengths in market share, distribution channels, customisation features, openness, and cloud integration. On the other hand, iOS prevails in frequency updates, marketing capabilities and the rate of OS crashes. Windows Phone is the weakest of them all and doesn't have any relative strengths against its rivals. The companies should create their strategies according to their strengths and weakness and improve their ratings in the most significant industry's areas.

Marketing Performance

At some point, every company has to assess the success of its marketing activities. Marketing effectiveness is the measure of how effective a marketing strategy is in maximising their spending to achieve positive results, in both the short- and long-term.

Marketing Effectiveness

One way to assess whether a company successfully practices marketing is to assess its overall level of marketing effectiveness. Marketing effectiveness is based on five dimensions, including a firm's degree of holding to a customer-oriented philosophy, strategic marketing orientation, ability to gather relevant and timely market intelligence, level of integration of the marketing organisation, and operational efficiency.

1. Customer Orientation
Successful marketing is based on being able to meet customers' needs. Marketing is highly dependent on knowing, analysing, and meeting customer needs, as opposed to a singular focus on the product or general sales. Does the company respond quickly to the customers' issues or troubles?
2. Strategic Orientation
From a strategic point of view, the marketing professionals in a company must function with the long-term strategy and success in mind. This typically takes the form of formal marketing planning, and a culture of strategic, long-term thinking.
3. Market Intelligence
To serve the customers' needs, a company and its marketing professionals should obtain as much objective information as possible, regarding its status in the marketplace. In addition to having the necessary information for planning and resource allocation, from their own internal data and sources, key decision-makers should also have at their disposal up-to-date information about the external market.
4. Organisational Integration
Based on the competitive intelligence the company gains, a company must react in an integrated and efficient manner, to maintain its level of customer service, and if necessary, adjust its strategy. Integration focuses on how good marketing and other departments in an organisation communicate and work together.
5. Operational Efficiency
Operational efficiency speaks to how effective the organisation is at its business. How well are the decisions, made at the higher levels of marketing, filtered throughout the organisation? How responsive is the marketing department to problems and issues? How responsive is the organisation to customer requests?

Performance Measurement

Marketing performance metrics, or key performance indicators (KPIs), are useful not only for marketing professionals but also for non-marketing executives. From the chief executive officer to the vice president of sales, the senior management team needs marketing KPIs to measure how marketing activities and spending impact the company's bottom line. This is particularly important since companies are prone to reduce marketing budgets during economic downturns, downsizing, and mergers.
As marketers face more and more pressure to show a return on investment (ROI) on their activities, marketing performance metrics help measure the degree to which marketing spending contributes to profits. It also highlights how marketing contributes to initiatives in other areas of the organisation, such as sales and customer service.
Other reasons why companies evaluate marketing performance include:

- Monitoring the marketing department's progress towards its annual goals.
- Determining what areas of the marketing mix – product, price, place, and promotion – need modification or improvement to increase some aspect of performance.
- Assessing whether company goods, services, and ideas meet customer and stakeholder needs.
- Establishing marketing performance metrics is an essential part to help brands satisfy customers, establish a clear company image, be proactive in the market, and fully incorporate marketing into the company's overall business strategy.

To measure the effectiveness of a marketing campaign, a business needs to agree upon the goals of the campaigns, and the KPIs (key performance indicators) that it needs to track. For example, the goal of a campaign could be to increase a company's online brand reputation. A good KPI to measure the success of this campaign might be, the number of website visitors.

Digital Marketing

Digital marketing encompasses all marketing efforts that use an electronic device or the internet. Businesses leverage digital channels such as search engines, social media, email, and websites to connect with current and prospective customers.

Digital Marketing Channels

Digital marketing features a key characteristic traditional marketing has often struggled with: it makes marketing actions easily *measurable.* Though marketing always used data, the newest integrations with technology have allowed many companies to work more efficiently with bigger data sets. With modern web analytics software, the success of specific digital marketing actions (such as an ad on Google, a post on social media, an email campaign or a blog post) can be tracked and reported.
Digital marketing is defined by the use of numerous digital tactics and *channels* to connect with customers where they spend much of their time: online. From the website itself to a business's online branding assets – digital

advertising, email marketing, online brochures, and beyond – there's a spectrum of tactics that fall under the umbrella of "digital marketing."
Here's a quick rundown of some of the most common digital marketing tactics and the channels involved in each one:

- *Search Engine Optimisation (SEO)*
  This is the process of optimising your website to "rank" higher in search engine results pages (like Google or Bing), thereby increasing the amount of organic (or free) traffic your website receives. Typically this is achieved by researching and including important user-relevant keywords to your website or blog. However, it normally takes a lot of time and effort to receive a good Google ranking.
- Search Engine Advertising (SEA)
  One of the most common types of online advertising is using Google Ads. Google Ads allow you to pay for top slots on Google's search engine results pages. You get charged for every click that your ad receives. This is the reason why this type of marketing is also known as Pay-per-Click (PPC). SEA will often lead to faster results than SEO, but it will also come with a price tag.
- *Content Marketing*
  This term denotes the creation and promotion of content assets for the purpose of generating brand awareness, traffic growth, lead generation, and customers. Since many potential customers are looking for information on the internet, this can be a great technique to combine consumer-relevant information with the products and services your company has to offer. Providing high-quality content can also be useful for SEO, social media postings, downloadable ebooks, email campaigns, etc.
- *Social Media Marketing*
  This practice promotes your brand and your content on social media channels and video platforms to increase brand awareness, drive traffic, and generate leads for your business. The channels you can use in social media marketing include Facebook, Twitter, LinkedIn, Instagram, Snapchat, YouTube, Pinterest, and many more. Social networks also offer companies the possibility to run paid ads in order to reach even more potential customers.
- *Email Marketing*
  Companies use email marketing as a way of communicating with their audiences. Email is often used to promote content, discounts, and events, as well as to direct people toward the business's website. The types of emails you might send in an email marketing campaign include blog subscription newsletters, follow-up emails to website users or customer welcome emails.

Digital marketing tactics can help your organisation get found online by the right people to attract, engage and convert with your products and services.

Digital Marketing Roles & KPIs

Digital marketers are in charge of driving *brand awareness* and *lead generation* through all the digital channels that are at a company's disposal. As you already know, these channels include social media, the company's own website, search engine rankings, email, display advertising, the company's blog, and many more.
The digital marketer usually focuses on different *key performance indicators* (KPIs) for each channel so they can properly measure the company's performance across each one.
Digital marketing is carried out across many marketing roles. In small companies, one generalist might own several of the digital marketing channels at the same time. Larger companies have multiple specialists who focus on just one or two of the firm's digital channels.
Here are some examples of these specialists:

- *SEO Manager* (main KPIs: Organic traffic, Google ranking)
  In short, SEO managers get the business to rank on Google. Using a variety of approaches to search engine optimisation, this person might work directly with content creators to ensure the content they produce performs well on Google.
- *Content Marketing Specialist* (main KPIs: Time spent on a webpage, overall blog traffic, YouTube channel subscribers)
  Content marketing specialists are digital content creators. They frequently keep track of the company's blogging calendar and come up with a content strategy that includes texts, images, podcasts, videos, and much more. These professionals often work with people in other departments to ensure the products and campaigns the business launches are supported with promotional content on each digital channel.
- *Social Media Manager* (main KPIs: Follows, Likes, Fans, Impressions, Shares)
  The role of a social media manager is easy to infer from the title, but which social networks they manage for the company depends on the industry. Above all, social media managers establish a posting schedule

for the company's written and visual content. This employee might also work with the content marketing specialist to develop a common strategy.

- *Performance Marketing Manager* (main KPIs: Cost-per-Click, Cost-per-Lead, Return-on-Investment)
  A performance marketing manager is responsible for developing, implementing and managing paid online advertising campaigns that promote a company and its products and services (for example with Google Ads or Facebook Ads). He or she plays a major role in acquiring leads and customers and typically is a number-driven and analytical person.
- *Email Marketing Manager* (main KPIs: Email open rate, Email click rate)
  This person is responsible for editing the company's email campaigns, analysing the results of the latest emails, and making recommendations for further improvement.

The best digital marketers have a clear picture of how each digital marketing activity supports their overarching goals. Depending on the goals of their marketing strategy, marketers can support a larger campaign through the free and paid channels at their disposal.

Case Study & Conclusion

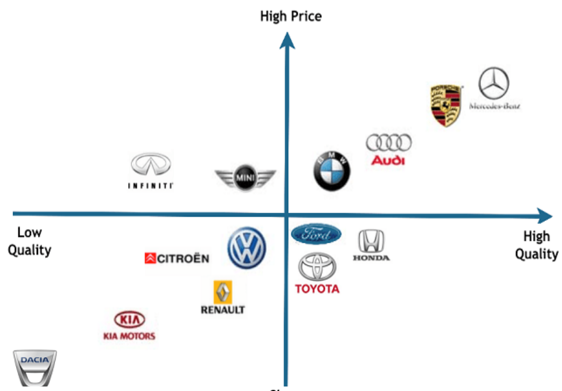
Marketing is about putting the right product in the right place, at the right time, and with the right price. The difficult part is doing this well. To complete this course and highlight its core concepts, we will take a closer look at the marketing of Mercedes-Benz and we will summarise the key takeaways.

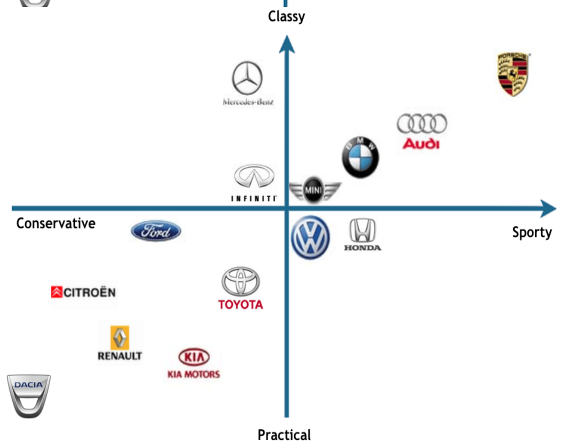
Case Study: Mercedes-Benz

Mercedes-Benz is part of the German automaker Daimler. The German automaker is the best-selling premium brand in the automotive industry and one of the largest (volume) selling automakers in the world. High performance and high-quality cars produced by Mercedes have helped the company in selling more than two million cars in the year 2018.
In this case study, we will discuss how Mercedes-Benz used perceptual mapping and marketing segmentation in order to change its marketing mix and appeal to a younger target audience.

Perceptual Mapping

Research shows that Mercedes-Benz is seen as a premium car brand that offers *high-quality* cars. The perceptual map below shows that consumers felt that Mercedes cars were the most prestigious but also the most *expensive* cars in the study.





Marketing Segmentation

Mercedes-Benz noticed that its Marketing Mix needed to change: while the firm continued to break sales records, the average Mercedes buyer reached the age of 53 years. Research also revealed that twice as many Millennial buyers chose competitors Audi and BMW over Mercedes.

As the Mercedes-Benz demographic began to age, the company faced the challenge of appealing to a younger audience without losing the prestige of the brand, risking the loss of its core customers.

Mercedes-Benz intensified marketing segmentation to reach a younger audience in 2010 with the creation of "Generation Benz" – an online community of approximately 200 to 250 people between the ages of 20 to 39. This online community provided consulting to the Mercedes-Benz marketing team about buyer habits and preferences in this demographic. The "Generation Benz" community helped to produce a new customer profile.

The company leveraged the insight from the community to update its marketing mix by launching new car models, changing its pricing strategy, facilitating online sales, and creating innovative marketing campaigns.

Marketing Mix

The marketing mix of Mercedes-Benz shows how the company was able to become the most recognised global automobile brand. This high profile success is not an accident but hard work, patience and excellent application of effective marketing strategy all rolled into one. Updates to its marketing mix indicate how the brand tries to better connect with a younger audience.

1. Product

Mercedes Benz is one of the leading premium car brands in the world. The company offers a wide range of passenger cars, light commercial and heavy equipment vehicles. However, the strongest in its product portfolio will be the luxury car segment which consists of Sedans, SUVs, sports cars, cabriolets, and roadsters. Mercedes-Benz sells products with a lot of variety available, which allows customers to select the product variety that best suits them. Three common key factors of all Mercedes-Benz cars are design, technology, and performance.

In order to appeal to a younger audience, Mercedes-Benz has given its conservative designs a fresher and more sportive look. The car marque has also shifted its product development to resonate with younger drivers and launched new and "younger" models such as the Mercedes-Benz CLA.

2. Price

The company deals in a niche segment where the customer is most concerned with the value and quality they are getting on the product. Therefore, Mercedes-Benz has tried to ensure it makes high-quality cars first and foremost. The company has a price structure ranging up to $100,000, depending on the model. Thus, the Mercedes-Benz marketing mix pricing strategy uses premium pricing.

The primary method to entice the younger and less affluent consumers has been the introduction of new models with a lower price point. A lower price reduces the barrier to entry and the price objection for less affluent customers while leveraging the luxury brand appeal. Mercedes-Benz has launched the CLA at a starting price of just under $30,000.

3. Place

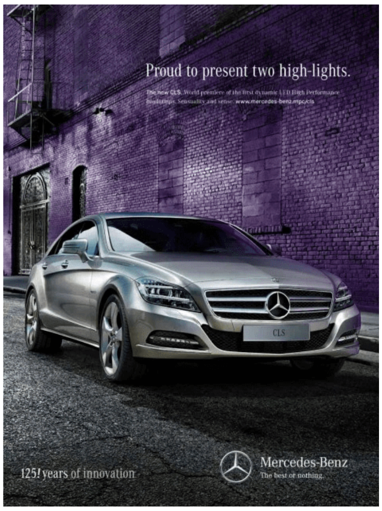
Mercedes Benz cars are present all across the world. Mercedes caters to a number of countries worldwide, with its dealerships and service stations present across various countries. The major markets are Europe, North America, and the Asia Pacific region. Mercedes Benz traditionally sells its products to wholesalers who then sell to different retailers located all over the country. These then sell to its customers.

Nowadays, however, Mercedes-Benz increasingly sells its cars directly to its customers through its online website. The firm also follows an omni channel distribution system where it has integrated its online and offline stores to allow customers easy access to its products.

4. Promotion

Mercedes Benz has always been an aggressive promoter. The company uses multiple channels to promote its products. It uses traditional media, which includes advertisements on television, radio, and print. This is beneficial due to its large reach and ability to attract a large number of people.

Competition has now propelled Mercedes-Benz to adjust its promotion message and channels to reach younger customers. Today, its marketing strategy focuses on presenting a more energetic, fun-loving and approachable side of Mercedes-Benz (see examples below). The firm now uses digital and social media channels to target millennials with a mix of owned media, paid media, influencers, and celebrities in the target demographic to create brand awareness and ultimately brand equity.



Conclusion

Mercedes-Benz provides an example of how a prestige brand can effectively segment and target a different audience without losing its brand prestige. Mercedes-Benz had struggled in this area before but had learned from its past mistakes. The launch of the CLA model proved to be a huge success: it was the best product launch for Mercedes-Benz in the last 20 years while reaching an average customer age of 46 (compared to the company-wide 53 years).

Summary

The heart of your business success lies in its marketing effectiveness. Marketing does not start with a new idea or innovative product. It begins with the customers – these are the people who make your business successful, and this is where good marketing can really make a difference.

Marketing enables you to position a product or service and to target different groups of customers more efficiently. It helps you to quickly zoom in on the most profitable parts of your business so that you can fully exploit the opportunities present. Start by segmenting your market into groups. Next, choose which of these groups you want to target. Last, identify how you want to position your product, based on the personality and behaviour of your target market.

In this course, we have seen that marketing is not just a single advertisement or public relations campaign, but rather a continual process of creating value for customers, and meeting their needs. Through managing and adjusting the four primary marketing mix variables (product, price, place, and promotion), identifying appropriate customers (segmentation and targeting), and placing the desired product or service image in the minds of those customers (positioning), marketing professionals are putting their companies in a position to achieve success.

In this course, you learned about:

- the most essential marketing concepts,
- the evolution of marketing over the years,
- analysing the micro and macro environment,
- the importance of preparing a marketing strategy,
- the most important tools for marketing segmentation and positioning,
- ways to measure marketing performance,
- and the importance of digital marketing.

STRATEGY AND OPERATIONS

Introduction

Welcome to Strategy and Operations!

In today's competitive business world, effective managers need to understand the differences and similarities between the operational side and the strategic side of business. They need to understand and bring together both disciplines.

Expanded knowledge of how strategy and operations can work in parallel with one another will drive better performance and competitiveness for the organisation.

Understanding the tension that exists between these two business functions will help managers recognise ways to reconcile those differences. When that happens, managers will begin to identify strategic opportunities.

To provide greater clarity, think of operations and strategy as two separate, but related, engines on a boat. Both engines propel the boat forward. While forward movement can occur with only one engine, the boat moves faster and is more responsive if both engines are running efficiently.

Each engine is important, and each engine requires fuel, maintenance, and skilful attention so the boat's ability to deliver results is optimised.

Think of your organisation as a big boat. If we focus all of our attention, effort, and resources solely on the operations side of the business, we put the whole organisation at risk. This risk comes from the operational engine running harder.

Being so focused on operations may seem like the smart thing to do at the moment, but over the long run, your efficiency may suffer. Running one engine hard could quickly move you in a direction that will backfire, taking your future competitive advantage with it. The idea of focusing solely on the strategic engine is equally bad.

Without the operational capacity to implement or take advantage of our insights about future innovations, processes, or market needs, all efforts towards our strategy and planning will be for nothing. We must understand and balance both sides of the business, and to do that well, a greater depth of understanding is necessary.

In the first part of this course (chapters 2-4), you are going to learn the basics of *Strategic Management*. In the second part of this course (chapters 5-8), we will discuss the most essentials tools and models of *Operations Management.*

Strategic Management

Strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organisation to meet its goals and objectives. In the first chapters of this course, we will discuss the most important strategic management tools every manager needs to understand.

Defining "Strategy"

The word "strategy" is derived from the Greek word *"stratcgos"*
– a combination of stratus (meaning army) and "ago" (meaning leading/moving).

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

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

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

But why is a strategy so important?

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

A strategy is a well-defined road map of an organisation. It defines the overall mission, vision and direction of an organisation. The objective of a strategy is to maximise an organisation's strengths and to minimise the strengths of the competitors. Strategy, in short, is the link between "where we are" and "where we want to be".

A strategy is a road map of an organisation and defines its overall mission, vision, and direction.

Strategic Management

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

The strategic management process has the following four steps:

1. Environmental Scanning

Environmental scanning refers to a process of collecting, scrutinising and providing information for strategic purposes. It helps in analysing the internal and external factors influencing an organisation. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. Strategy Formulation

Strategy formulation is the process of deciding best course of action for accomplishing organisational objectives and hence achieving organisational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. Strategy Implementation

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

4. Strategy Evaluation

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

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes. However, strategic management is an ongoing process. Therefore, it must be realised that each component interacts with the other components and that this interaction often happens in chorus.

Remember: strategic management is an ongoing process.

Competitive Advantage

An organisation is said to have a competitive advantage if its *profitability is higher* than the average profitability for all companies in its industry. But there is not only one correct way to measure it, and for the right reason. Nearly everything can be considered as competitive edge, e.g. higher profit margin, greater return on assets, valuable resources such as brand reputation or unique competence in producing jet engines.

Every company must have at least one advantage to successfully compete in the market. If a company can't identify one or just doesn't possess it, competitors soon outperform it and force the business to leave the market.

An organisation can achieve an edge over its competitors in the following two ways:

- *Through external changes*
  When external factors change, many opportunities can appear that, if seized upon, could provide many benefits for an organisation. A company can also gain an upper hand over its competitors when it is capable to respond to external changes faster than other organisations.
- *By developing them inside the company*
  A firm can achieve cost or differentiation advantage when it develops rare resources, unique competencies or through innovative processes and products.

Although there are many ways to achieve an advantage, American economist Michael Porter has identified two basic types of competitive advantage: cost and differentiation advantage.

- *Cost advantage*

A company can achieve superior performance by producing similar quality products or services but at lower costs. The company that tries to achieve cost advantage is pursuing cost leadership strategy. Higher profit margins lead to further price reductions, more investments in process innovation and ultimately greater value for customers.

- *Differentiation advantage*
  Differentiation advantage is achieved by offering unique products and services and charging a premium price for that. Differentiation strategy is used in this situation and company positions itself more on branding, advertising, design, quality and new product development rather than efficiency, outsourcing or process innovation. Customers are only willing to pay higher prices for unique features and the best quality.

An organisation that is capable of outperforming its competitors over a long period of time has a *sustainable competitive advantage.*

Environment Analysis

Environmental analysis is the process of identifying external elements that affect an organisation's performance. It is an essential foundation for every business strategy. In this chapter, we will discuss the two most popular techniques: the PESTLE analysis as well as Porter's Five Forces.

PEST Analysis

PEST-Analysis is a framework used to scan the organisation's external environment. The letters PEST stand for Political, Economic, Social, and Technological. Some approaches will add in extra factors, such as Legal and Environmental (PESTLE-Analysis). However, all approaches are all merely variations on a theme. The important principle is identifying the key factors from the wider, uncontrollable external environment that might affect the organisation.

The basic PEST analysis includes four factors:

- *Political* – Here government regulations are assessed in terms of their ability to affect the business environment and trade markets. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.
- *Economic* – Through this factor, businesses examine the economic issues that are bound to have an impact on the company. This would include factors like inflation, interest rates, economic growth, the unemployment rate, policies, and the business cycle followed in the country.
- *Social* – With the social factor, a business can analyse the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With these, a business can understand how consumer needs are shaped.
- *Technological* – How technology can either positively or negatively impact the introduction of a product or service into a marketplace is assessed here. These factors include technological advancements, the lifecycle of technologies, and the role of the Internet.

Extended to PESTLE

Expanding the PEST analysis to PESTLE adds two more factors:

- *Legal* – These factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.
- *Environmental* – Those factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, a growing awareness of the potential impacts of climate change is affecting how companies operate.

When using PESTLE as a tool for analysis it is possible to get overlap between an issue which can be put into two sections. For example, legal factors are often connected to political factors.

As with all techniques, there are advantages and disadvantages to using it to help plan an organisational strategy. On the one hand, it provides a simple and easy-to-use framework for your analysis. It helps to reduce the impact and effects of potential threats to your organisation and provides a mechanism that enables your organisation to identify and exploit new opportunities. On the other hand, users can oversimplify the information that is used for making decisions. Also, the process has to be conducted regularly to be effective and often organisations do not make this investment.

To maximise the benefit of the PESTLE analysis, it should be used on a regular basis within an organisation. The impact of a certain external factor may have more severe consequences for a particular division or department and the PESTLE technique can help to clarify why change is needed. Furthermore, this analysis technique should be used in conjunction with other tools (such as SWOT) to produce the best results.

PESTLE Example

In this part, we will take a look at the American coffee company *Starbucks*. The macroeconomic environment that Starbucks operates in is characterised by the last global economic recession. However, consumers have not cut down on their coffee consumption and instead, are shifting to lower-priced options. This means that Starbucks can still leverage the buying power of consumers by offering cheaper alternatives.

We can use the PESTLE tool to screen the environment of the company and analyse the consequences for Starbucks:

1. Political Factors:

The sourcing process of Starbuck's raw materials has attracted the attention of the politicians in the West and in the countries from where it sources its raw materials. This is the reason why Starbucks is keen on adhering to social and environmental norms and to follow sourcing strategies that are appropriate and in conformance to the "Fair Trade" practices that have been agreed upon by global corporations and the governments.

2. Economic Factors:

The foremost external economic driver for Starbucks is the last global economic recession, which has dented the profitability of many companies. However, studies have shown that consumers instead of cutting down on their coffee consumption are shifting to lower-priced alternatives which is an opportunity for Starbucks.

3. Social Factors:

Though Starbucks can offer cheaper alternatives as mentioned previously, it has to do so without sacrificing the quality and this is the key socio-cultural challenge that the company faces as it expands its consumer base to include the consumers from the lower and the middle tiers of the income pyramid.

4. Technological Factors:

The company has already introduced WiFi capabilities in its outlets so that consumers can surf the web and do their work while sipping coffee. Furthermore, it has introduced app-based discount coupons and mobile payments.

5. Legal Factors:

Starbucks has to ensure that it does not run afoul of the laws and regulations in the countries from which it sources its raw materials as well as the home markets in the United States.

6. Environmental Factors:

There have been several concerns about the business practices of Starbucks from the activists and from the consumers themselves. Therefore, Starbucks has to take into account these concerns if it has to continue holding on to the trust it enjoys with its consumers.

Conclusion

The analysis proves the point that Starbucks is operating in a relatively stable external environment. The main reason for this is the fact that it operates in the Food and Beverages space which means that despite the recession, consumers cut down on the consumption to a certain extent and not completely. Therefore, the task before Starbucks is to lower costs and increase the value so that it retains its consumer base and attracts consumer loyalty.

Porter's Five Forces

Porter's Five Forces model, named after Michael Porter, identifies five forces that shape every market and industry in the world. The five forces are frequently used to measure competition intensity, attractiveness, and profitability of an industry or market. These five forces are:

- *Threat of New Entry***:** A company's power is affected by the force of new entrants into its market. The less time and money it costs for a competitor to enter a company's market and be an effective competitor, the more a company's position may be significantly weakened. An industry with strong barriers to entry is an attractive feature for companies that allows them to charge higher prices and negotiate better terms.
- *Buyer Power***:** This specifically deals with the ability that customers have to drive prices down. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output. A smaller and more powerful client base means that each customer has more power to negotiate for lower prices and better deals. A company that has many, smaller, independent customers will have an easier time charging higher prices to increase profitability.
- *Threat of Substitution:* Substitute goods or services that can be used in place of a company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favourable terms. When close substitutes are

available, customers will have the option to forgo buying a company's product, and a company's power can be weakened.
- *Supplier Power:* This force addresses how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch from one supplier to another. The fewer the number of suppliers, and the more a company depends upon a supplier, the more power a supplier holds to drive up input costs and push for advantage in trade. On the other hand, when there are many suppliers or low switching costs between rival suppliers a company can keep input costs lower increasing profits.
- *Competitive Rivalry:* This force refers to the number of competitors and their ability to undercut a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a company. Suppliers and buyers seek out a company's competition if they are able to offer a better deal or lower prices. Conversely, when competitive rivalry is low, a company has greater power to charge higher prices and set the terms of deals to achieve higher sales and profits.

Frequently used to identify an industry's structure to determine corporate strategy, Porter's model can be applied to any segment of the economy to search for profitability and attractiveness.
Understanding Porter's Five Forces and how they apply to an industry, can enable a company to adjust its business strategy to better use its resources to generate higher earnings for its investors.

Porter's Five Example

In this short example, we will look at how Under Armour fits into the athletic footwear and apparel industry. Under Armour is an American company headquartered in Baltimore, US that manufactures footwear, sports, and casual apparel.

- Competitive rivalry: Under Armour faces intense competition from Nike, Adidas, and newer players. Nike and Adidas, which have considerably larger resources at their disposal, are making a play within the performance apparel market to gain market share in this up-and-coming product category. Under Armour does not hold any fabric or process patents, hence its product portfolio could be copied in the future.
- Bargaining power of suppliers: A diverse supplier base limits their bargaining power. Under Armour's products are produced by dozens of manufacturers based in multiple countries.
- Bargaining power of customers: Under Armour's customers include both wholesale customers as well as end customers. Wholesale customers, like Dick's Sporting Goods and the Sports Authority, hold a certain degree of bargaining leverage, as they could substitute Under Armour's products with those of UA's competitors to gain higher margins. The bargaining power of end customers is lower as UA enjoys strong brand recognition.
- Threat of new entrants: Large capital costs are required for branding, advertising and creating product demand, and hence limits the entry of newer players in the sports apparel market. However, existing companies in the sports apparel industry could enter the performance apparel market in the future.
- Threat of substitute products: The demand for performance apparel, sports footwear and accessories is expected to continue, and hence this force does not threaten Under Armour in the foreseeable future.

Conclusion:

By thinking about how each force affects you, and by identifying the strength and direction of each force, you can quickly assess the strength of your position and your ability to make a sustained profit in the industry. You can then look at how you can affect each of the forces to move the balance of power in your favour..

Strategic Planning & Internal Analysis

After having analysed the environment, it is now time to take an organisation's internal strengths and weaknesses into account. This is essential for crafting a powerful strategy that distinguishes your business from your competitors and leads to long-term success.

SWOT Analysis

SWOT analysis is a relatively quick way to look at organisational *Strengths, Weaknesses, Opportunities,* and *Threats*. The overall purpose of a SWOT analysis is to examine the internal and external factors that help or hinder you in achieving each of your objectives. Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. However, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control. In other words, the framework views all positive and negative factors inside and outside the firm that affect success.

1. Strengths
Strengths are the qualities that enable us to accomplish the organisation's mission. These are the basis on which continued success can be made and continued/sustained. Strengths are the beneficial aspects of the organisation or the capabilities of an organisation, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organisational strengths are huge financial resources, broad product line, no debt, committed employees, etc.
2. Weaknesses
Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. Weaknesses in an organisation may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Examples of organisational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc. Weaknesses are controllable. They must be minimised and eliminated.
3. Opportunities
Opportunities are presented by the environment within which our organisation operates. These arise when an organisation can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organisations can gain a competitive advantage by making use of opportunities. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter the telecom sector.
4. Threats
Threats arise when conditions in the external environment jeopardise the reliability and profitability of the organisation's business. Threats are uncontrollable. When a threat comes, stability and survival can be at stake. Examples of threats are ever-changing technology; increasing competition leading to excess capacity, and massive price wars reducing industry profits.

SWOT analysis (or SWOT matrix) is a strategic planning technique used to evaluate the strengths, weaknesses, opportunities, and threats of an organisation.
The popularity of SWOT analysis is down to its simplicity and flexibility. It is easy for everyone to understand and its implementation does not require any technical knowledge or specialist training. However, the SWOT methodology does encourage a tendency to oversimplify the situation. Another problem with SWOT is that there are no obvious limits as to what is and is not relevant. During SWOT discussions, you need to keep everyone focused on what is important in achieving the objectives, rather than just creating lists of issues.

SWOT Example

This chapter analyses the strategy of the world's leading furniture retailer, IKEA using the SWOT methodology. The Swedish company is known for its simple yet effective approach to retailing with the Do It Yourself (DIY) concept: The products sold by IKEA are mostly ready to use and flat packed meaning that they can be assembled by the customers themselves.
1. Strengths
The biggest strength that IKEA has is its clear vision, which is to add value to its customers irrespective of the market conditions. This has translated into an articulate and well-defined business strategy and an approach to retailing, which is pioneering in its simplicity and deadly in its targeting of competitors and effective in its positioning. Another key strength of the company is its clear concept which translates into an array of products that can be assembled by the customers themselves leading to humongous cost reductions which are then passed on to the customers.
2. Weaknesses
Given the fact that IKEA operates in multiple countries around the world, it is difficult to control standards across locations. Though the company tries its best to implement uniform quality across its product range and throughout its locations, replicable and scalable control of quality is a key weakness. Furthermore, with its obsessive focus on cost leadership, quality sometimes goes for a toss. The point to be noted here is that it is sometimes difficult to maintain quality in the context of increasing costs and the need to replicate standards across its locations worldwide.
3. Opportunities
Perhaps the biggest opportunity that the company has is its cost leadership, which means a single-minded focus on cost at the expense of everything else. While this has raised concerns about quality, the customers do not seem to mind as they are getting their money's worth. The other opportunity lies in the company's expansion into the emerging markets and the developing world where it has an untapped customer base that can be leveraged for effective profitability.
4. Threats
IKEA's low-cost business model has been imitated and copied by its rivals, which means that the company needs to constantly innovate if it has to stay ahead of the competition. For instance, several regional and local companies

have caught on to the DIY bandwagon and are also focusing on costs which means that to stay nimble and agile, IKEA has to come up with newer strategies. With the advent of the internet and online shopping, DIY as a key driver of strategic success is no longer the sole USP (Unique Selling Proposition) of IKEA.

Conclusion

Through its innovative business model and its focus on products, processes, and systems, IKEA has managed to stay ahead of the competition in the furniture retailing business.

The company can diversify into other products and product lines as it can replicate its business model in other realms as well. This requires fresh thinking and a new approach to its strategy that would combine low-cost leadership with additional drivers of success like scalability and focus on quality.

Finally, the company can enter the emerging markets where its products and its business model are likely to be met with success and the untapped customer base can be leveraged.

BCG Matrix

The BCG Matrix, named after its inventors from Boston Consulting Group, assess products on two dimensions. The first dimension looks at the products general level of *growth* within its market. The second dimension then measures the product's *market share* relative to the largest competitor in the industry. Analysing products this way provides a useful insight into the likely opportunities and problems with a particular product.

Products are classified into four distinct groups: Stars, Cash Cows, Question marks, and Dogs.

Let's have a look at what each of these four outcomes means for the product and the decision making process:

- *Stars:* Star products all have rapid growth and dominant market share. This means that star products can be seen as market-leading products. These products will need a lot of investment to retain their position, to support further growth as well as to maintain its lead over competing products. Star products will also be generating a lot of income.
- *Cash Cows:* Cash cows don't need the same level of support as stars. This is due to less competitive pressures within a low growth market where they usually enjoy a dominant position. Cash cows are still generating a significant level of income but are not costing the organisation much to maintain. These products can be "milked" to fund Star products.
- *Dogs:* Products classified as dogs always have a weak market share in a low growth market. These products are very likely making a loss or a very low profit at best. The question for managers is whether the investment currently being spent on keeping these products alive could be spent on making something that would be more profitable.
- *Question Marks (also called Problem Children):* These products are in a high growth market but do not seem to have a high share of the market. One reason for this might be that a very new product was recently added to the market. If this is not the case, then some questions need to be answered. What is the organisation doing wrong? What are competitors doing right?

The BCG Matrix is easy to perform, it helps to understand the strategic positions of the business portfolio, and it's a good starting point for further analysis. Nevertheless, this growth-share analysis has been heavily criticised for its oversimplification. Market growth is one of many factors that determine industry attractiveness and relative market share is only one of the factors that determine competitive advantage. This matrix does not take into account any other factors that may have a bearing on both industry attractiveness and competitive advantage.

BCG Matrix Example

The BCG matrix analysis for *Nestlé* reveals some interesting perspectives. As a global multinational in the food and beverage industry, the Swiss company is one of the biggest corporations in the world. Over 8000 brands fall within its umbrella and are as widespread as bottled water and pet food.

Question Marks:

There are products that formulate a part of the industry that is still in the phase of development, yet the organisation has not been able to create a significant position in that industry. The small market share obtained by the organisation makes the future outlook for the product uncertain, therefore investing in such domains is seen as a high-risk decision. Nestlé's Chocolates and confectioneries can be placed in the Question Mark quadrant of the BCG Matrix due to high competition and small market share in the industry.

Stars:

The products that have a high market share in a high growth industry are the stars of the organisation. In the case of Nestlé, it's Mineral Water and its Nescafe Coffee fall in the Star quadrant. Growing healthier lifestyle trends and emerging markets have prompted the brand to invest large amounts of investments in order to differentiate the bottled water brands from competitors in mature markets and grow brand awareness in emerging markets.

Dogs:
Dogs were perceived to have the potential to grow but failed to create magic due to the slow market growth. Failure to deliver the expected results makes the product a source of loss for the organisation, propelling the management to withdraw future investments. The capital could be invested in a Question mark or Star category instead. Nestlé's Milo was launched as chocolate and malt powder for Milk and water, however, the product failed to create any significant impact on the business in many countries.
Cash Cows:
Cash cows are the products that have a high market share in a market that has low growth. For Nestlé, one Cash Cow is Maggi Noddles. With a market share of 80-85 %, Maggi Noddles holds a very stronghold in the market and has high customer loyalty. The product requires very less investment to maintain its market share and fight off any competition.

The BCG matrix helps organisations determine which areas of their business deserve more resources and investment. This is especially helpful for corporations like Nestlé that offer a broad range of products in many different markets.

Ansoff-Matrix

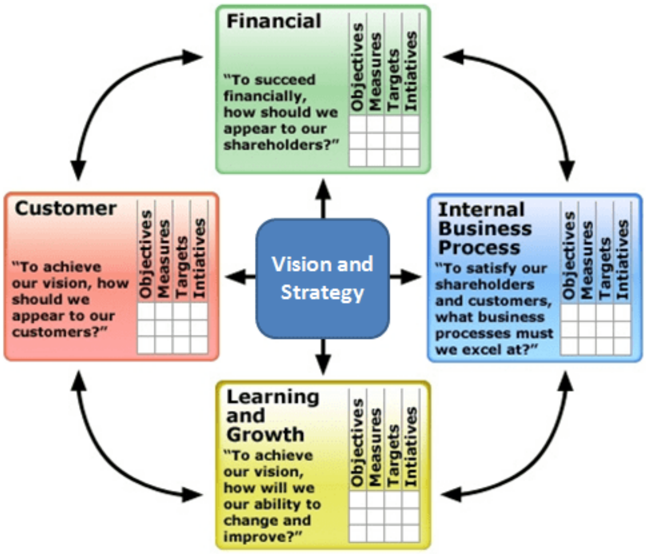
The Ansoff Matrix is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.
According to this tool, there are four possible combinations for growth. Each company needs to decide which strategy to use based on the strengths and weaknesses of the organisation and its competitors. Each strategy has a different level of risk, with market penetration having the lowest risk and diversification having the highest risk.
Market Penetration
This occurs when a company infiltrates a market in which current products already exist. The best way to achieve this is by gaining the customers of competitors. Other ways include attracting non-users of your product or convincing current clients to use more of your product.
While market penetration may come with the lowest risk, at some point the company will reach market saturation with the current product and will have to switch to a new strategy.
Market Development
Market development targets non-buying customers in currently targeted segments. It also targets new customers in new segments in order to expand the potential market. New users can be defined as new geographic, demographic, institutional, or psychographic segments.
If a company believes that its strength lies with its products and they believe their products would be enticing to new customers, then a company may want to use a market development strategy.
New Product Development
New product development is a process that has two parallel paths: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in the overall strategic process of product life cycle management used to maintain or grow market share.
If a company believes that its strength lies with the customers, then they should consider a product development strategy.
Diversification
Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets. At the business unit level, diversification is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally via investing in a promising business outside of the scope of the existing business unit.
Because of the high risk involved with diversification, many marketing experts believe a company shouldn't attempt diversification unless there is a high return on investment.

The Ansoff Matrix is a useful tool for organisations wanting to identify and explore their growth options. It is one of the most commonly used tools for this type of analysis due to its simplicity and ease of use.

Balanced Scorecard

The Balanced Scorecard, invented by Kaplan and Norton, is a strategic management system used by businesses from all over the globe to align their business activities to the overall strategy and vision of their organisations. We all know that business success, whether public or private, is ultimately down to performance. Hence, managing and measuring that performance is vital for any organisation that wants to thrive in its niche or industry.
This management system enables your business to set, trace and ultimately achieve your objectives and strategies. After you develop your business strategies and goals, they can be set and tracked using the Four Legs of the

Balanced Scorecard. Each leg deals with a distinct business perspective. These legs are the *Financial* one, the *Internal Business Process* Leg, the *Customer* Leg and the *Learning & Growth* Leg.



1. Financial
Norton and Kaplan have not disregarded the need for financial data. Accurate and timely data is always a priority, being paramount for managers who want to get the complete picture. With the implementation of a large corporate database, the financial leg aims to automate processes. The financial leg tracks your business financial performance and requirements, including return on investment (ROI), cash flow, financial results (quarterly and annually) and return on capital employed.
2. Customer
More and more, managers and researchers are coming to realise the huge importance of customer focus and customer satisfaction. If customers are not happy with your company, they will eventually migrate to the competition. Hence, poor performance from the customer perspective is an indicator of decline. Some of the areas assessed by this indicator include customer retention rate, delivery performance to the customer, customer percentage of market, customer satisfaction rate and quality performance for the customer.
3. Internal Business Processes
This perspective allows you to measure customer process needs, requirements and procedures. Metrics based on this leg allow you to know how well your business is running and whether your services and products conform to your company's mission. Some of the areas that relate to internal business processes are process automation, process bottlenecks, duplicate activities across functions, number of activities per function and process alignment.
4. Learning and Growth
This perspective focuses on teaching you to educate your employees, how you gain knowledge and how you can use this knowledge to maintain an edge in your niche. This leg deals with subjects like job satisfaction, training & learning opportunities for your employees, employee turnover and level of expertise for the job. According to Norton and Kaplan, learning is considered a much more important criterion than training. Additionally, they emphasise the importance of using high-performance work systems (or technological tools) in order to create a better work environment.
Conclusion
Each of these unique perspectives or legs is inter-dependent. In other words, you need to improve all of them in order to reap the benefits of Balanced Scorecard. Hence, these four legs have to be analysed and improved together, on a regular basis, in order for your company to thrive. Ignoring one of these legs is like sitting on a four-legged stool with one broken leg – an impossibility. You will eventually lose your balance and fall to the ground, flat on your face.
The main benefit of this system is that it reflects all the elements that define a company's functions. This powerful management system also helps you study those areas where performance measurements are not normally present. However, there are a few downsides to using balanced scorecards. Scorecards tend to evolve into complex management instruments. Moreover, maintaining these scorecards is a daunting task which can take large amounts of time.

In a nutshell, the Balanced Scorecard is a very good management assessing tool that allows managers to make positive changes in their organisations and complement smart strategies with smarter implementations.

Operations Management

Operations management is the administration of business practices to create the highest level of efficiency possible within an organisation. It is concerned with converting materials and labor into goods and services as efficiently as possible to maximise the profit of an organisation.

Definition

Operations Management is an area of management concerned with overseeing, designing, and controlling the process of production and redesigning business operations in the production of goods or services. It involves the responsibility of ensuring that business operations are efficient in terms of using as few resources as needed and effective in terms of meeting customer requirements.
Operations Management is concerned with managing the process that converts *inputs* (in the forms of raw materials, machines, labor, management, capital, energy, etc.) into *outputs* (in the form of goods and/or services):

In this second part of the course, we will take a look at management methods and analytical techniques to perform more efficient and more effective operations and production processes. For example, you will learn..

- the essentials of *value and supply chain management* by carrying out a Value Chain Analysis as well as a VIRO Analysis of Resources
- the basics of *business decision management* by carrying out Break-Even Analysis and drawing Decision Trees
- the fundamentals of *inventory management* by carrying out an ABC-Analysis as well as using the Reorder Point Model

Basic Principles

Before discussing the first practical tools, it makes sense to get familiar with some of the fundamental rules of successful operations management. Below you can find a list of essential principles that are important to understand the driving forces behind decisions about planning, designing and organising processes.
These basic rules are embracing the idea of focusing on the delivery: supporting the organisation to *deliver better results and optimising the input of materials, equipment, technology, and human resources.*
Dr. Richard J. Schonberger, a renowned researcher of American manufacturing, has become widely known in operations management for his set of customer-focused principles:

- *Continual, rapid improvement*: Aim for non-stop improvement to always deliver the best quality, aim for a quicker response to customer demand, and always offer maximum flexibility
- *Team up with customers:* Know what they buy and use, and organise product families accordingly
- *Focus*: Allow no variations that the customers don't buy or demand
- *Organise resources:* Set priorities in organising resources in a way the operations are close to the customer rate of use or demand
- *Maintain equipment*: Always think of improvement of current assets first; keep the equipment as simple and flexible as possible.
- *Cut times*: Shorten product path to the customer by making processes and delivery faster
- *Cut setup*: Be prepared to support different processes and get all information and tools ready for on-demand production
- *Pull system:* Improve the workflow and cut the waste by producing on demand
- *Total quality control:* Use only the best materials, processes, and partners
- *Fix causes:* Focus on controlling the root causes that really affect cost and performance

Value Chain Management

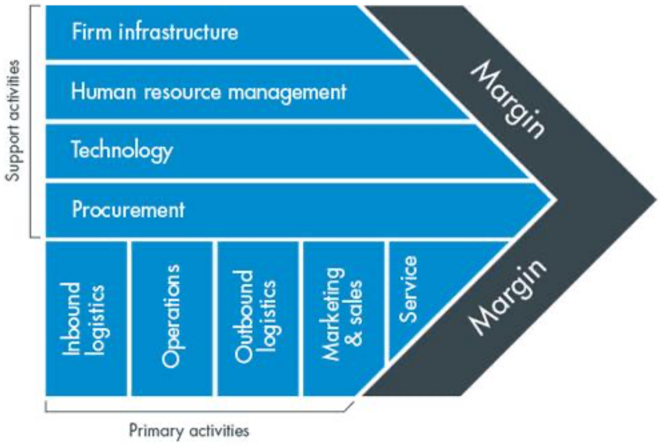
With ever-increasing competition for unbeatable prices, exceptional products, and customer loyalty, businesses must continually evaluate the value they create. In this chapter, you will learn how successful value chain management can give businesses an advantage over their competition.

Value Chain Analysis

The Value Chain Analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyses these activities to reduce costs or increase differentiation.
The goal is to recognise which activities are the most valuable to the firm and which ones could be improved to provide a *competitive advantage.* In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are.
As pointed out earlier in this course, a firm that competes through *differentiation advantage* will try to perform its activities *better* than competitors would do. If it competes through *cost advantage*, it will try to perform internal

activities at *lower costs* than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits.

Michael Porter introduced the generic value chain model in 1985. The value chain represents all the internal activities a firm engages in to produce goods and services. Below you can see Porter's value chain model:



The value chain is formed of *primary activities* that add value to the final product directly and support activities that add value indirectly.
Although primary activities add value directly to the production process, they are not necessarily more important than *support activities.* Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore, support activities are often the most important source of differentiation advantage. On the other hand, primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed.

Value Chain Example

There are two different approaches on how to perform the value chain analysis. The approach depends on what type of *competitive advantage* a company wants to create (differentiation or cost advantage). The table below lists all the steps that are necessary.

1	Design & Engineering	Purchasing Materials & Components	Assembly	Testing and Quality Control	Sales and Marketing	Distribution and Dealer Support
2	$200.000,000 medium	$400.000.000 very important	$550.000.000 very important	$50.000.000 not important	$350.000.000 important	$100.000.000 less important
3	Number of new models Frequency of new models	Order size Location of suppliers	Capacity utilization Location of plants	Frequency of defects	advertising budget Strength of reputation	Number of dealers Sales per dealer
4	1. Locating plants near the cluster of suppliers or dealers reduces purchasing and distribution costs. 2. Fewer model designs reduce assembling costs. 3. Higher order sizes increase warehousing costs.					
5	1. Create just one model design for different regions to cut costs in designing and engineering, to increase order sizes of the same materials, to simplify assembling and quality control processes and to lower marketing costs. 2. Manufacture components inside the company to eliminate transaction costs of buying them in the market and to optimize plant utilization.					

Differentiation advantage:

- Step 1: Identify the customers' value-creating activities. These may be related to marketing or design.
- *Step 2:* Evaluate the differentiation strategies for improving customer value, i.e. by adding more features.
- *Step 3:* Identify the best sustainable differentiation by linking activities.

Cost advantage:

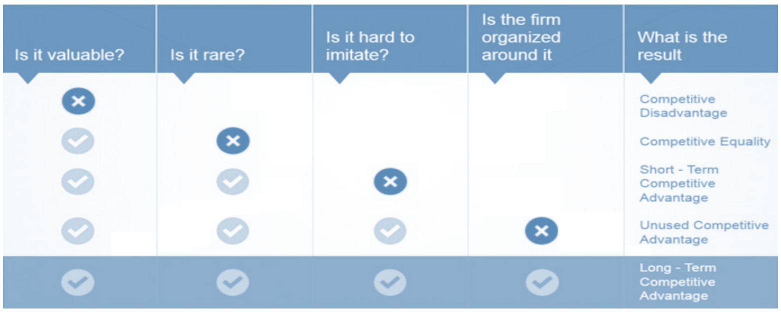
- *Step 1:* Identify the firm's primary and support activities. This requires adequate knowledge of the company's operations.
- *Step 2:* Establish the relative importance of each activity in the total cost of the product.
- *Step 3:* Identify cost drivers for each activity, i.e. by benchmarking against competitors.
- *Step 4:* Identify links between activities. Does cost reduction in one activity lead to further cost reductions or higher costs in other activities?
- *Step 5:* Identify opportunities for reducing costs. How will you improve the activities precisely?

The following example illustrates *all five steps* of the basic Value Chain Analysis for an automobile manufacturing company that competes on *cost advantage*.
In *step 1,* the company's primary activities were identified (i.e. design, assembly, distribution. For simplicity reasons, this table does not include the support activities). In *step 2,* the importance of each activity was established (from not important to very important). In *step 3,* the cost drivers for each activity were identified (i.e. order size, frequency of defects, advertising budget). In *step 4*, links between activities were identified and finally, in *step 5*, opportunities for reducing costs were identified.

VRIO Framework

The VRIO framework is a tool that is used to analyse a company's internal resources. It tries to find out if they can be a source of sustained competitive advantage.
In order to become a source of sustained competitive advantage, resources must have three attributes: they need to be **v**aluable, **r**are, and costly to **i**mitate. Additionally, a firm must be *organised* to capture the value of the resources. A resource that meets all four requirements can bring sustained competitive advantage for the company.

- *Valuable*: The first attribute of the framework asks if a resource adds value by enabling a firm to exploit opportunities or defend against threats. If the answer is yes, then a resource is considered valuable. Resources are also valuable if they help organisations to increase the perceived customer value. This is done by increasing differentiation or/and decreasing the price of the product. The resources that cannot meet this condition will lead to competitive disadvantage.



- *Rare:* Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. However, a firm should not neglect resources that are valuable but common. Losing valuable resources and capabilities would hurt an organisation because they are essential for staying in the market.
- *Costly to imitate:* A resource is costly to imitate if other organisations are unable to imitate, buy or substitute it at a reasonable price. Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing a comparable product/service (substituting).
- *Organised to capture value:* The resources themselves do not confer any advantage for a company if it's not organised to capture the value from them. A firm must organise its management systems, processes, operations, and organisational structure to be able to fully realise the potential of its valuable, rare and costly to imitate resources. Only if this is the case, sustained competitive advantage can be achieved.

VRIO Example: Google's HR

There's no doubt that Google/Alphabet is one of the most powerful companies in the world, and its success arguably stems from a sustained competitive advantage in human capital management. If we were to break down *Google's VRIO framework from the HR perspective,* it might look something like this:

- *Value***:** Use human capital management data to hire and retain innovative, productive employees. These employees consistently create some of the most popular consumer products and services in the world.
- *Rarity***:** No other companies are using data-based employee management so extensively.

- *Imitability:* Data-based human capital management is both costly and difficult to imitate, at least for the near future. Companies have to build the software and invest in training their HR staff on the new technology and strategy.
- *Organisation***:** Google is organised to capture value from this capability. The IT department has the skills to collect and maintain the data, while HR and team leaders are trained on how to use the data to hire, promote, manage, and improve performance of employees.

Having a VRIO framework in place allowed Google to take a completely different approach to human capital management and make decisions using massive amounts of objective data.
For example, Google's People Operations team set out to identify which characteristics make a great manager. The data used to determine this included surveys, performance evaluations, and great-manager nominations. Google also conducted double-blind interviews with the company's highest- and lowest-rated managers. By determining what qualifies as a great manager, Google strengthens its internal team and the foundation of its sustained competitive advantage.

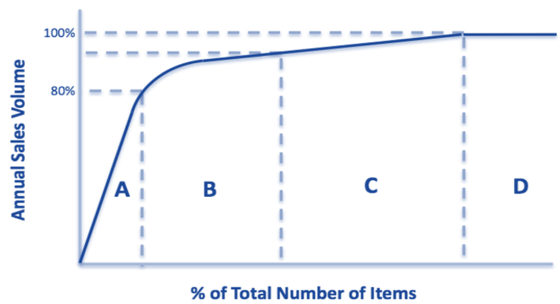
The VRIO framework complements other strategic analysis methods to provide your organisation with clear-cut competitive advantages. A VRIO analysis can be applied company-wide or to individual departments for a well-rounded view of how each aspect of your business should position itself in the marketplace. It's important to continually review your framework—capabilities change over time and competitors adapt.

Inventory Management

Inventory management refers to the process of ordering, storing, and using a company's inventory. These include the management and supervision of raw materials, components, and finished products, as well as warehousing and processing such items.

ABC Analysis

Typically, a company has thousands of items held in its inventory. However, only a small percentage of these items deserve management's closest attention and tightest control. An ABC analysis is the process of dividing the inventory units into three classes according to their dollar usage so that managers can focus on the items with the highest importance.



- *Class A items***:** These items typically represent 20% of the items in the inventory but account for 80% of the dollar usage.
- *Class B items:* These items represent 30% of the items in the inventory but only account for 15% of the dollar usage.
- *Class C items***:** These items represent 50% of the items in the inventory but only account for 5% of the dollar usage.

The ABC-classification gives recognition to the varying importance of different types of inventory. Consequently, classifying items into A, B, and C allows management to better identify and control items of greater importance. Loss of control over a few Class A items is considerably more serious than the loss of control over a large number of Class B or C items.

ABC Example

The following table of a company's item usage is given: In this example, the item "special glue" is *only used 100 times but accounts for 76% of the total dollar usage.* It is, therefore, *a class A item*. Management should focus on finding cheaper glue, alternatives for glue or reduce the amount of glue used.

Only after this, management should spend time and effort on trying to reduce the costs of Class B items (screws), and then Class C items (boxes, paper, cardboard).

Item	Quantity/year	Value/item	Dollar usage	% of Total	Class
Screws	100,000	$0.05	$5,000	19%	B
Special Glue	100	$200	$20,000	76%	A
Boxes	300	$2.5	$750	3%	C
Paper	3,000	$0.1	$300	1%	C
Cardboard	1,500	$0.2	$300	1%	C
Total			**$26350**	**100%**	

A items are goods where annual consumption value is the highest. Applying the Pareto principle (also referred to as the 80/20 rule where 80 percent of the output is determined by 20 percent of the input), they comprise a relatively small number of items but have a relatively high consumption value. So it's logical that analysis and control of this class is relatively intense since there is the greatest potential to reduce costs.

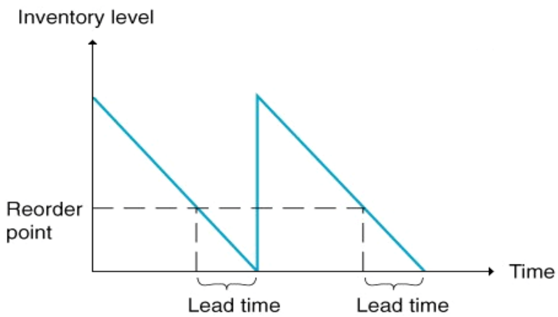
Reorder Point Model

The Reorder Point Model identifies the time to order when a stock level drops to a predetermined amount. This amount usually includes a certain quantity of stock to cover for the delay between order and delivery, the lead time, and stock to reduce the risk of running out of stock, the safety stock.
The Reorder Point Model permits you to calculate when you need to make a new order to…

- *not run out of stock,* and
- *minimise* inventory and stocking *costs*.

The two main elements of the reorder point model are:

- *Lead Time:* the interval between placing an order and having it ready for dispensing. When calculating lead times in a supermarket, for example, you must also consider the amount of time to stock the shelves.
- *Safety Stock:* the extra units of inventory carried as a protection against possible stock-outs. The safety stock must be carried when the manager is not sure about either the demand for the product or the lead time.



The thing to know about a reorder point is that it's not a static number. It's based on your own purchase and sales cycles, and it varies on a per-product basis. However, once you have a handle on patterns in your purchase and sales orders for a particular product, you're ready to start putting the variables together.
The reorder point is the inventory level at which it is appropriate to replenish stock. The calculation for this is as follows:
Reorder Point = Average demand during lead time + Safety stock
The reorder point can also be displayed graphically. You can see that the reorder point depends heavily on the lead time. The longer it is, the earlier the new purchasing order should be placed. So the order cycle can be pictured as follows:

Reorder Example

You have a great new product on the shelves, and it's selling fast. Every customer purchase means more revenue but also reduces your inventory levels. Of course, you will reorder before it goes out of stock, but if you order too early, you'll need to spend more on storing these excess items. If you order too late, you'll be facing disappointed customers who'll look to your competitors.

So when is the best time to place your order? Let's take a look at an example to find out. Let's assume that the typical demand for the product you are selling is 50 units per day. The lead time is 25 days. Your safety stock is 300 units. We can calculate the best moment to place the reorder with the following formula:
Reorder Point = Average demand during lead time + Safety Stock
Reorder Point = (50 * 25) + 300
Reorder Point = 1,250 + 300
Reorder Point = 1,550
This means that you should place a reorder as soon as you have 1,550 units left for sale.

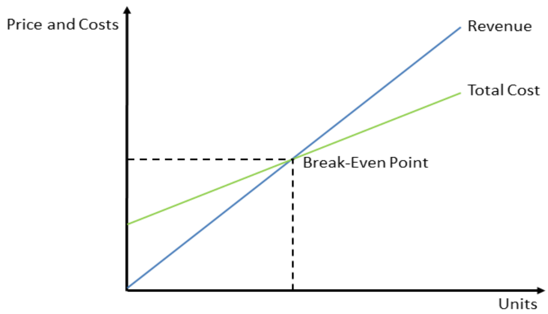
Planning reorder points is a crucial part of inventory management. Setting your reorder point to the optimum amount lets you cut down on excess spending while ensuring you'll have enough stock for your customers even when things take an unexpected turn.

Business Decision Management

Business decision management entails all aspects of designing, building and managing the decision-making systems that an organisation uses to manage its interactions with customers, employees, and suppliers. In this chapter, you will learn to use two of the most popular decision-making tools.

Break-Even Analysis

Operations managers have to make many decisions as they manage production processes and supply chains. The break-even analysis helps managers to identify how much change in volume or demand is necessary before a second alternative becomes better than the first alternative.
To evaluate an idea for a new product or service, or to examine the performance for an existing one, the break-even analysis comes in handy. The *break-even quantity* is the production volume at which *total revenues equal total costs.*



Computation of break-even points is very important for every business because it tells business owners and managers how much sales are needed to cover all fixed as well as all variable expenses. It tells exactly *at which sales volume the business will start generating profit.*
Since we want to know when total costs equal total revenues, we can use the following formula:
Total Revenue = Total Cost

To carry out a break-even analysis, however, we need more information about the costs of producing a product as well as the revenue that are generated selling a product.

- The *total cost* is typically split into fixed cost and the variable cost:
- The *variable cost varies* directly with the volume of production, i.e. cost per unit for raw materials and labor.
- *Fixed cost does not vary* with the volume of production, i.e. facilities, machines, advertising budget.
- *Total revenue* is simply the amount of money a firm receives. If a firm is selling each unit at the same price then total revenue will equal price times quantity.

This leads us to a more precise expression of the formula:
*Price * Quantity = Fixed Cost + (Variable Cost * Quantity)*

Since we are interested in the break-even *quantity,* we can change this formula using basic algebra:
Quantity = Fixed Cost / (Price – Variable Cost)

Break-Even Example

Let's assume you are offering a *product* for *$200* to your customers. *Fixed costs* are *$100,000* per year and *variable costs* are *$100 per product.*

What is the break-even point for this service (starting at which point will you be making money)?

- *Price: $200*
- *Fixed costs: $100,000*
- *Variable cost: $100*
- *Quantity: ?*

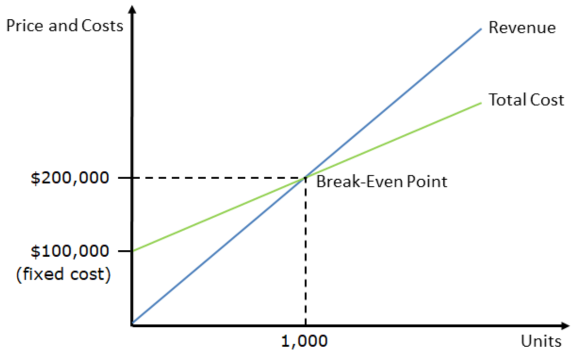
Quantity = fixed cost / (price – variable cost)

Quantity = $100,000 / ($200 – $100)

Quantity = $100,000 / $100

Quantity = 1,000

Therefore, given the fixed costs, variable costs, and selling price of the product, the company would need to sell *1,000* units to break even.



If the company sells less than 1,000 units, it will actually be losing money. It will only make a profit if it manages to sell more than 1,000 units.

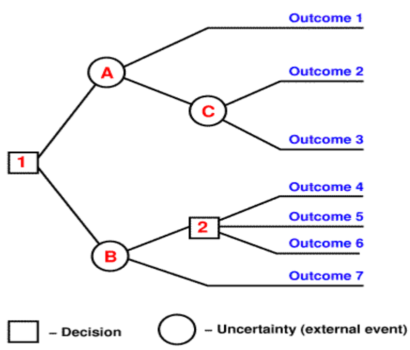
Break-Even Analysis refers to the point in which total cost and total revenue are equal. A Break-Even Analysis is used to determine the number of units needed to cover total costs (fixed and variable costs).

Decision Tree

A decision tree is a schematic model of alternatives available to the decision-maker, along with their possible consequences. It is a map of the possible outcomes of a series of related choices. It allows an individual or organisation to weigh possible actions against one another based on their costs, probabilities, and benefits.

A decision tree method is a general approach to a wide range of processes and supply chain decisions, such as product planning, process capacity, and location. It is particularly valuable for evaluating different capacity expansion alternatives when demand is uncertain and sequential decisions are involved.

A decision tree typically starts with a decision which branches into possible outcomes. Each of those outcomes leads to additional decisions, which branch off into other possibilities. This gives it a treelike shape:



There are three different types of nodes: decision nodes, event nodes, and end nodes.

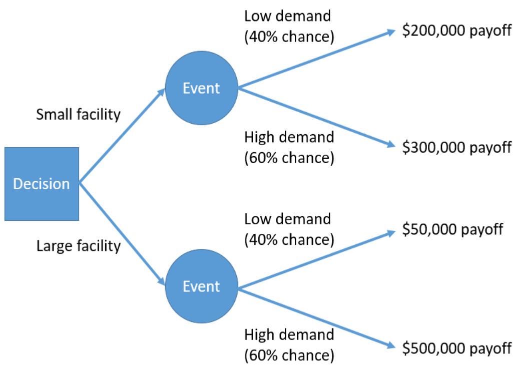
- A *decision node,* represented by a square, shows a decision to be made, and an end node shows the final outcome of a decision path.
- An *event node,* represented by a circle, shows the probabilities of certain results.
- An *end, node* (outcome) shows the final outcome of a decision path.

Decision Tree Example

Let's assume the following scenario: you must decide between building a *small* or *large facility*. However, you are uncertain about the demand for your products. There is a *60% chance that demand will be high* and a *40% chance that demand will be low*. The expected payoffs are:

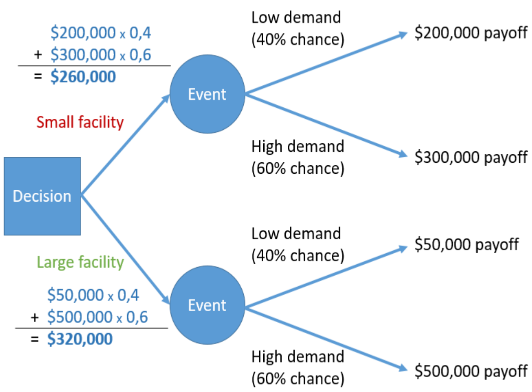
- Large facility with low demand: $50,000
- Large facility with high demand: $500,000
- Small facility with low demand: $300,000
- Small facility with high demand: $200,000

Building a big facility may seem tempting, as a payoff of $500,000 is possible. But it is also a risky choice since the payoff is only $50,000 if demand turns out to be low.
Which option would you choose? A large or a small facility? A decision tree can help *transform the given information into a simple graph* and lead to an informed decision:



So how do we use the information of this decision tree? We simply need to multiply the potential payoffs with the chances of an event taking place. Let's see how this works for our decision tree:

- A *small facility* will have an average payoff of $200,000 * 0.4 (low demand) + $300,000 * 0.6 (high demand) = $260,000
- A *large facility* will have an average payoff of $50,000 * 0.4 (low demand) + $500,000 * 0.6 (high demand) = $320,000
- Since the average payoff of a *large facility* is higher, you should choose this option.



A decision tree is a mathematical model used to help managers make decisions. A decision tree uses estimates and probabilities to calculate likely outcomes. A decision tree helps to decide whether the net gain from a decision is worthwhile.

Case Study: Samsung

Samsung Electronics is a South Korean multinational electronics company headquartered in Suwon, South Korea. The company has assembly plants and sales networks in 80 countries and employs over 300,000 people.

Samsung Electronics is the flagship company of the Samsung "chaebol" (South Korean business conglomerate). As of 2019, Samsung is the world's largest manufacturer of consumer electronics by revenue. The company produces electronic devices such as mobile phones, smartphones or television sets, as well as electronic components such as lithium-ion batteries or memory chips.

PESTLE Analysis

The company has global aspirations and was able to expand rapidly into new markets. We can use the PESTLE tool to examine the external environmental drivers of Samsung's strategy:

- *Political:* Political stability plays a major role in the success of a business. Samsung has lately faced political pressures in Africa and Latin America due to unstable political structures. However, emerging economies such as China and India present great market opportunities.
- *Economic:* Samsung was able to expand its market from developed countries to emerging regions. But high volatility in the stock markets and constant fluctuations in exchange rates can have serious implications on the financial health of the business. Nevertheless, Samsung did survive the last economic crisis quite well.
- *Social:* Customs, traditions, and practices differ from one group to another. An international company has to incorporate a strategy of global thinking and local acting. Even after expanding across a large number of countries, Samsung was able to customise its products according to the needs and wants of the local customers.
- *Technological:* Samsung has been able to drive innovation to its competitive advantage. Adopting innovations and new technologies is essential to increase or sustain revenues. Furthermore, modern cellular networks and solid internet infrastructures are both critical.
- *Legal:* Samsung has faced heavy penalties for imitating Apple's iPads and iPhones during the "smartphone wars". The smartphone wars started in 2009 and refer to legal patent battles among manufacturers including Sony, Google, Apple, Samsung, Microsoft, and more. The conflict occurred because one finished smartphone might involve thousands of patents.
- *Environmental:* With rising concerns for sustainability, customers are holding companies accountable for their actions on the environment. Samsung started to reduce its energy consumption as well as the greenhouse emissions throughout the life cycle of its products. The company has to obey various environmental laws in the countries it operates in.

SWOT Analysis

The SWOT analysis of Samsung Electronics indicates the most relevant internal and external strategic factors for the company and its operating industry environment:

Strengths	▪ high customer brand loyalty and stable customer base ▪ diversified portfolio and a wide range of products ▪ highly innovative and able to meet changing consumer needs ▪ high brand value (ranked as one of the most valuable brands in the world) ▪ application of new technologies (e.g. unbreakable screens; artificial intelligence)
Weaknesses	▪ failed to offer options in the low-end market (lost market share to Huawei)

	▪ suffered from poor reputation (explosion of Galaxy Note 7 smartphones in 2017) ▪ no own operating system (dependence on Android OS)
Opportunities	▪ economic growth increased consumer spending worldwide ▪ growing middle-classes in emerging markets (especially China and India) ▪ growing youth population in developing countries (digital natives) ▪ diversification and acquisitions of other businesses
Threats	▪ challenging economic conditions in key markets (danger of market saturation) ▪ intense competition in high-end market (Apple) and low-end market (Huawei) ▪ growing competition from Chinese manufacturers

BCG Matrix
We can use the BCG Matrix (also known as the growth-share matrix) to classify Samsung product groups into four different categories: Cash Cows, Stars, Question Marks, and Dogs.

- *Cash Cows***:** Samsung home appliances (e.g. refrigerators and washing machines) are the cash cows for the company. Samsung has been able to attain a good market share across different industry segments and still holds a good potential to grow in the coming future.
- *Stars***:** The stars exist in high growth markets and generate the most cash. Samsung's mobile phones and smart TVs with increasingly advanced features fall in this category.
- *Question Marks*: These products consume a lot of cash while very less amount is brought in return. However, they could become stars. Samsung's printer can be placed in this quadrant.
- *Dogs:* Dogs are those products that failed due to slow market growth. For example, Samsung's smart watch failed to achieve success.

Conclusion
The PESTLE analysis highlights various elements that impact Samsung's performance. The extremely competitive technological market landscape, the inconstant world economic situation, and political changes in developing regions create a complex business environment.
The SWOT analysis underlines Samsung's key challenges and capabilities. The company has still many opportunities to grow – especially in developing countries and thanks to the increasing number of millennials, who are most likely to purchase its electronic products. On the other hand, Samsung's major threat is the intense competition from other market players like Apple or Huawei. However, the company's huge investments in technological innovation and its wide product portfolio indicate that Samsung is well equipped and well prepared for the future.
Finally, the BCG matrix allows portraying Samsung's product portfolio along relative market share and speed of market growth. Question Marks and Stars are supposed to be funded with investments generated by Cash Cows. Dogs need to be divested or liquidated to prevent long-term losses. In the end, you will need a balanced portfolio of Question Marks, Stars and Cash Cows to assure increasing revenues in the future.

Conclusion
In the *first part* of this course, you learned the basics of *Strategic Management*. Strategic Management is a continuous process of strategic analysis, strategy creation, implementation and monitoring, used by organisations with to achieve and maintain a competitive advantage.
In order to do so, you learned to use the following tools:

- Analyse the environment based on a PESTLE Analysis and Porter's Five Forces
- Combine this with your company's internal strengths and weaknesses in a SWOT Analysis
- Manage your company with the BCG Matrix and the Balanced Scorecard (BSC)

In the *second part* of this course, you learned the basics of *Operations Management.* Operations Management is an area of management concerned with overseeing, designing, and controlling the process of production and redesigning business operations in the production of goods or services.
In order to do so, you learned to use the following tools:

- Analyse your supply chain by using the Value Chain Analysis
- Analyse your resources with the VIRO Analysis
- Calculate your minimum production targets with the Break-Even Analysis
- Take decisions by using a Decision Tree
- Manage your inventory with an ABC-Analysis and the Reorder Point Model

FINANCE AND ACCOUNTING

Introduction

Welcome to Finance and Accounting!
In this course, you will learn the basics of accounting, analyse the most important financial statements, and get tools that you can use to understand how the decisions you make affect the long-term success of your firm.
Understanding finance and accounting allows you to present your ideas persuasively and precisely, and to be more comfortable when discussing results with colleagues and senior managers. It helps you understand the financial news and how financial markets can affect your own firm. And it helps you make better decisions about your personal finances and investments.
What is accounting?
Accounting or accountancy is the measurement, processing, and communication of financial information about economic entities such as businesses and corporations.

"Accounting is the art of recording, classifying, and summarising, in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof."
– American Institute of Certified Public Accountants (AICPA)
Even in a shifting corporate and business landscape, accounting remains constant. Organisationally, financially, and legally, accounting is a core department in any organisation, and the need for a highly trained accounting team is absolutely essential.
Accounting is a dual discipline. Any accounting student needs to understand the differences between financial and managerial accounting, two separate branches of the trade that share similarities yet also have crucial differences regarding principles, methods, and applications:

- *Financial accounting* provides information to people outside the business entity and it provides information to both current and potential shareholders, creditors such as banks or vendors, financial analysts, economists, and government agencies.
- *Management accounting* (managerial accounting) concentrates on reporting to people inside the business entity and it is used to provide information to employees, managers, owner-managers, and auditors.

Accounting is often called the *language of business* because it is used by managers to communicate the firm's financial information.
What is finance?
Finance is a broad term that describes activities associated with banking, leverage or debt, credit, capital markets, money, and investments. Basically, finance represents money management. Finance also encompasses the oversight, creation, and study of money, banking, credit, investments, assets, and liabilities that make up financial systems.
One of the most fundamental financial theories is the time value of money, which essentially states that a dollar today is worth more than a dollar in the future.
Since individuals, businesses, and government entities all need funding to operate, the finance field includes three main sub-categories: personal finance, corporate finance, and public (government) finance.
What you will learn in this course:
Accounting has been called "the language of business" and finance is the application of that language to business activities and decisions. By the end of this course, you will be able to:

- Define and use basic *financial terms and concepts*
- Identify and analyse *financial statements*
- Understand the key *accounting equation*

Basics of Accounting

Accounting or accountancy is the measurement, processing, and communication of financial information about economic entities – such as businesses and corporations. Accounting, also called the "language of business", measures the results of an organisation's economic activities.

Vocabulary

Accounting is not a foreign language, understood only by those who have studied it for years. Everyone who functions in today's society has a basic understanding of the principles of finance. The daily transactions of comparing prices, writing checks to pay for purchases, using credit cards, and maintaining a bank account are all financial management activities.

Managing the financial activities of a business are a logical extension of understanding and managing your personal financial activities, as you can see in the following table:

	Business	*Personal*
Revenue	Sales	Salaries/wages
Expenses	Cost of sales & operating costs	Household & personal costs
Profit	Difference between sales and costs	Savings
Loss	When costs exceed sales	When costs exceed salaries
Source of financing	Banks & investors	Banks

Financial management comprises the tools and capabilities used to produce monetary resources and the management of those monetary resources. The language of finance allows different businesses to compare monetary results. Whether the business makes cars or sells hamburgers, people can describe the results in monetary terms. In order to take part in this discussion, it's important to understand the words and concepts that people use. Throughout this course, we employ the vocabulary of accounting and finance.

Types of Financial Transactions

There are four main types of financial transactions that occur in a business. These four types of financial transactions are sales, purchases, receipts, and payments. Each financial business transaction will be written down as a Journal Entry (we will cover this topic later).

Let's take a minute to learn about each one:

- *Sales*: A sale is a transfer of property for money or credit. Revenue is earned when goods are delivered or services are rendered. Fees for services are recorded separately from sales of merchandise, but the bookkeeping transactions for recording sales of services are similar to those for recording sales of tangible goods.
- *Purchases*: Purchasing refers to a business or organisation acquiring goods or services to accomplish the goals of its enterprise. Purchases can be made by cash or credit.
- *Receipts*: Receipts refer to a business getting paid by another business for delivering goods or services.
- *Payments*: Payments refer to a business paying another business for receiving goods or services.

Accounting Principles

Accounting rests on a rather small set of fundamental principles. People often refer to these fundamentals as *Generally Accepted Accounting Principles (GAAP)***.** These standards vary across the globe and are typically overseen by some combination of the private accounting profession in that specific nation and the various government regulators. Here we will highlight the eight most important principles:

1. Revenue Principle

The revenue principle, also known as the realisation principle, states that *revenue is earned when the sale is made,* which is typically when goods or services are provided. A key component of the revenue principle, when it comes to the sale of goods, is that revenue is earned when legal ownership of the goods passes from seller to buyer. Note that revenue isn't earned when you collect cash for something.

2. Expense Principle

The expense principle states that an *expense occurs when the business uses goods or receives services.* As is the case with the revenue principle, if you receive some goods, simply receiving the goods means that you've incurred the expense of the goods. Similarly, if you received some service, you have incurred the expense. It doesn't matter that it takes a few days or a few weeks to get the bill. You incur an expense when goods or services are received.

3. Matching Principle

The matching principle is related to the revenue and the expense principles. The matching principle states that when you recognise revenue, you should *match related expenses with the revenue.*

For example, if you own a hot dog stand, you should count the expense of a hot dog and the expense of a bun on the day you sell that hot dog and that bun. In other words, match the expense of the item with the revenue of the item.

4. Cost Principle

The cost principle states that amounts in your accounting system should be quantified or measured by using *historical cost.*

For example, if your business owns a building, that building shows up on your balance sheet at its historical cost; you don't adjust the values in an accounting system for changes in a fair market value.

5. Objectivity Principle

The objectivity principle states that accounting reports should use *objective and verifiable data.* In other words, accounting systems and accounting reports should rely on subjectivity as little as possible. An accountant always wants to use objective data (even if it's bad) rather than subjective data (even if the subjective data is arguably better).

6. Continuity Assumption

Accounting systems assume that a business will *continue to operate* in the future. Unless there is evidence to the contrary, the accountant assumes that the business will continue to operate indefinitely. If a business won't continue, it becomes very unclear how one should value assets if the assets have no resale value.

7. Unit-of-Measure Assumption

The unit-of-measure assumption assumes that a business's *domestic currency* is the appropriate unit of measure for the business to use in its accounting.

For example, the unit-of-measure assumption states that U.S. businesses should use U.S. dollars and European businesses should use Euro in their accounting.

8. Separate Entity Assumption

The separate entity assumption states that a business entity is *separate* from its business owner. The separate entity assumption enables one to prepare financial statements just for the sole business.

Accrual vs. Cash Accounting

There are two kinds of accounting – cash accounting and accrual accounting. The difference between the two types of accounting is when revenues and expenses are recorded:

- In *cash accounting,* revenues are recorded when cash is actually received and expenses are recorded when they are actually paid – no matter when they were actually invoiced.
- In *accrual accounting,* on the other hand, revenues and expenses are recorded when they are earned, regardless of when the money is actually received or paid.

Let's take a look at an example to illustrate the difference between the two methods:

A business sells a computer at the end of January and the customer pays by credit in the beginning in February. Using accrual basis accounting the revenue is recorded immediately (in January). Using cash basis accounting the revenue would be recorded when the credit payment was received (in February).

The Advantage of Cash Accounting

The advantage of cash-based accounting is simplicity – it is much easier to manage cash flow in real-time by merely checking the bank balance rather than having to examine accounts receivable and accounts payable.

The Advantage of Accrual Accounting

However, while cash-based accounting can give a point-in-time picture of the business cash flow, accrual-based accounting gives a more accurate picture of the longer-term state of the business – revenue and expenses are immediately recorded, allowing the business to more properly analyse trends and manage finances. This method is more commonly used than the cash method.

Using cash basis accounting, income is recorded when you receive it, whereas, with the accrual method, income is recorded when you earn it.

Accounting Equation

The *basic accounting equation* is the foundation of all accounting concepts. It represents the relationship between the assets (what a business owns), liabilities (what it owes to others), and owner's equity (the difference between assets and liabilities). It is defined as: *Assets = Liabilities + Owners' Equity.*

Assets

An asset is anything in a business that has some sort of financial value and can be converted to cash. Assets are the products you have stocked in your warehouse (they're converted into cash as you sell them), the cash in your register and all the equipment in your firm. Assets can be grouped into two categories depending on how quickly you can convert them into cash:

- Current assets are assets that can be converted into cash within one year – like checks, invoices, or store inventory. Assets that you can quickly convert into cash also are called liquid assets.
- Fixed assets are assets that take more than a year to be converted into cash. In most cases property, plants and equipment are fixed assets.

Here's a list of the most common kinds of business assets:

Cash	Cash includes money and money equivalents such as checks, money orders, or bank deposits.
Accounts receivable	Accounts receivable represent the money that your clients and customers owe you for purchasing your products or services. When you allow a customer to buy your goods today and pay later,

	you're creating a receivable. If you work strictly on a cash basis (e.g. at a hot dog stand), you don't have any receivables.
Inventory	Inventory comprises all the products that you purchase or manufacture to sell to customers, as well as raw materials and supplies used in operations. If you run a grocery store, your inventory consists of all your store items.
Prepaid expenses	When you pay for a product or service in advance, you create an asset known as a "prepaid expense". Examples include a prepaid maintenance contract on a typewriter or an insurance policy with a one-year term paid in advance.
Equipment	Equipment is the wide variety of property that your organisation purchases to carry out its operations. Examples include desks, chairs, or computers.
Real estate	Real estate includes assets such as the land, buildings, and facilities that your company owns, occupies, and utilises. Some companies have little or no real estate assets, and others have sizeable ones.

An asset is a resource with economic value for an individual or corporation There are two types of assets: 1. current assets and 2. fixed assets.

Liabilities

Liabilities are money owed to others outside your organisation. They may include the money you owe to the company that delivers your office supplies, the payments you owe on the construction loan that financed your warehouse expansion, or the mortgage on your corporate headquarters building. In short, assets put money in your pocket, and liabilities take money out! As with assets, there are also two types of liabilities:

- Current liabilities are to be repaid within one year, for example, money for employee pay checks.
- Long-term liabilities are to be repaid in a period longer than one year, for example, the mortgage on the company's facility.

Here are common business liabilities, from both the current and long-term categories:

Accounts payable	Accounts payable are the obligations owed to the many individuals and organisations that have provided goods and services to your company. Examples include money owed to your computer network consultant and an out-of-house marketing advertising agency.
Notes payable	Notes payable represent loans made to your company by individuals or organisations, for example, a loan secured from a large bank.
Accrued expenses	Sometimes a company incurs an expense but has no immediate plans to reimburse the individual or organisation that's owed the money. Examples include future wages to be paid to employees and utility bills.
Bonds payable	When companies issue bonds to raise money to finance large projects, they incur obligations to pay back the individuals and organisations that purchase them.
Mortgages payable	When companies purchase property, they often do so by taking out mortgages – long-term real estate loans, secured by the property itself.

Liabilities are binding obligations that are payable to another person or entity. There are two types of liabilities: 1. current liabilities and 2. long-term liabilities.

Owners' Equity

Owners' Equity is the money that remains when you take all your company's assets and subtract all your liabilities. Owners' equity represents the owners' direct investment in the firm or the owners' claims on the company's assets. Another way of expressing a company's owners' equity is its net worth. Net worth is simply a snapshot of your company's financial health for a particular period of time. Here are the two common types of owners' equity:

- Paid-in capital: The money that people invest in a company. When companies such as Facebook or Volkswagen offer to sell shares of stock, investors provide paid-in capital to the companies when they pay money to buy the stock.
- Retained earnings: A company's earnings that are held within the company. The money gets reinvested, not paid out to shareholders as dividends.

Although owners' equity generally is positive, it can go negative when a company takes on large amounts of debt – for example, to acquire another company.

Owner's equity, often called net assets, is the owners' claim to company assets after all of the liabilities have been paid off. Finally, there are two types of owner's equity: 1. paid-in capital and 2. retained earnings.

The Equation

The basic accounting equation (Assets = Liabilities + Owners' Equity) is similar to any other equation: A change to one side of the equation causes a change in the other. Therefore, every financial transaction you make results in not one, but two entries to your accounting records – noted as *double-entry bookkeeping.*

Rules of the Accounting Equation:

- Both sides of the Basic Accounting Equation should be equal and balance.
- Every business transaction should change at least two accounts. It means that in every value received, another value is given up.

Example: Susie's Sushi

For example, let's take a look at Susie's Sushi restaurant: When Susie's Sushi buys a big yellowfin tuna to slice up for customers, it affects her accounting equation.

Let's assume that Susie's Sushi starts with assets (inventory) of $1,000, liabilities (accounts payable) of $500, and owners' equity of $500. Her equation would look like this:

Assets = Liabilities + Owners' Equity

$1,000 = $500 + $500

When Susie purchases that yellowfin tuna from the local fish market for $100, and the fish market agrees to bill her for it, she acquires an asset (inventory). She also takes on a liability of $100 — the money owed to the fish market (accounts payable). After this transaction, the accounting equation now looks like this:

Assets = Liabilities + Owners' Equity

$1,100 = $600 + $500

As you can see, Susie added $100 of inventory to her assets, but she simultaneously added a payable of $100 to her liabilities. The owners' equity doesn't change. As this example shows, every transaction on one side of the accounting equation results in a transaction on the other side of the accounting equation.

The basic accounting equation is: Assets = Liabilities + Owners' Equity

Bookkeeping

Bookkeeping is the recording of financial transactions and is part of the process of accounting in business. Transactions include purchases, sales, receipts, and payments. There are several methods of bookkeeping, the most important one is the double-entry bookkeeping system.

Journal Entries

Bookkeeping is the *recording of financial transactions* (sales, purchases, receipts, and payments). A bookkeeper, also known as an accounting clerk, is a person who records these day-to-day financial transactions of an organisation in the form of *journal entries*. Without a sound bookkeeping system, all of finance is really only guesswork. No financial planning can take place if the books and records from which information is drawn are not reliable.

Let's take a look at an example. The following table features three journal entries:

Date	Account & Description	Ref	Debit	Credit
20XX				
Aug. 1	Cash Notes Payable Borrowed $50,000		50,000	 50,000
Aug. 3	Equipment Cash Purchased equipment		30,000	 30,000
Aug. 6	Vehicles Notes Payable Cash Purchased a truck		20,000	 18,000 2,000

What information can we find in these three journal entries? The first entry shows that $50,000 of cash were borrowed. The second entry shows that equipment of $30,000 was bought in cash. The third one shows that a vehicle was acquired for $20,000. $2,000 of which were paid in cash and $18,000 were borrowed.

All your accounting journal entries are aggregated into the *general ledger*. This information is then used to construct financial statements at the end of a reporting period.

Debits and Credits

Most people are familiar with debit and credit outside the context of accounting. We have debit cards and credit cards that allow us to spend money directly from our checking account (debit cards) or from our line of credit with our bank (credit cards). In this sense, debits are viewed as money drawn from our bank account, and credits are viewed as money available to spend or borrow from the bank. This is how debits and credits are represented on your bank account statement.

Business transactions are events that have a monetary impact on the financial statements of an organisation. When accounting for these transactions, we record numbers in two accounts, where the debit column is on the left and the credit column is on the right.

- A debit is an accounting entry that either increases an asset or expense account, or decreases a liability or equity account.
- A credit is an accounting entry that either increases a liability or equity account, or decreases an asset or expense account.

Whenever an accounting transaction is created, at least two accounts are always impacted, with a debit entry being recorded against one account and a credit entry being recorded against the other account.

In this course, we will not focus on the topic of debits and credits, since the concept is only important for advanced accountants. Just keep in mind: After you have identified two or more accounts involved in a business transaction, you must debit at least one account and credit at least one account.

Double Entry Accounting

Double-entry accounting, also called double-entry bookkeeping, is the accounting system that requires every business transaction or event to be recorded in at least two accounts. Every debit that is recorded must be matched with a credit. In other words, debits and credits must also be equal in every accounting transaction and in their total.

Every modern accounting system is built on the double-entry bookkeeping concept because every business transaction affects at least two different accounts.

For example, when a company takes out a loan from a bank, it receives cash from the loan and also creates a liability that it must repay in the future. This single transaction affects two accounts – the asset accounts and the liabilities accounts.

Financial Statements

Financial statements are a collection of reports about an organisation's *financial results, financial condition,* and *cash flows*. The objective of financial statements is to provide information about the financial position, performance, and changes for both the entity and for readers.

Why Statements?

Financial statements are very useful to a wide range of stakeholders:

- *Owners and managers* require financial statements to make business decisions that affect continued operations.
- *Employees* need financial statements when making collective bargaining agreements with the management and when discussing their compensation, promotion, and rankings.
- *Investors* need to assess the viability of a business.
- *Financial institutions* (banks and other lending companies) use statements to decide whether to grant a company fresh working capital or extend debt securities.
- *Government* entities (tax authorities) need financial statements to ascertain the accuracy of taxes declared and paid by a company.

The standard contents of a set of financial statements are:

- *Income statement*: This statement, also referred to as profit and loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These statements include revenue and various expenses incurred during the processing state.
- *Balance sheet*: This statement reports on a company's assets, liabilities, and ownership equity at a given point in time. A balance sheet is often described as a "snapshot of a company's financial condition". It allows anyone to see what a company owns as well as what it owes to other parties as of the date indicated in the heading.

- *Statement of cash flows*: This statement reports on a company's cash flow activities—particularly its operating, investing, and financing activities.

For large corporations, these statements are often complex and may include extensive notes, an explanation of financial policies, and management analysis. The notes typically provide detail for items on the balance sheet, income statement, and cash flow statement.
We will now take a close look at the three most important financial statements.

Income Statement

The income statement, also called the profit and loss statement (P&L), presents the results of a company's operations for a given period – a quarter, a year, etc. The income statement presents a summary of the revenues, gains, expenses, losses, and net income or net loss of an entity for the period.
This statement is similar to a moving picture of the entity's operations during the time period specified. In most cases, the income statement is the first financial statement prepared because the net income or loss must be calculated before other financial statements can be prepared.
Keep in mind that the income statement shows revenues, expenses, gains, and losses; it does not show cash receipts (money you receive) nor cash disbursements (money you payout).
The key item listed on the income statement is the net income or loss. A company's net income for an accounting period is measured as follows:

Revenue + Gains – (Expenses + Losses) = Net Income

Let's break this down:

- *Revenues* are inflows or other enhancements of assets of an entity or settlement of its liabilities (or both) during a period, based on production and delivery of goods, provisions of services, and other activities that constitute the entity's major operations. Examples of revenues are sales revenue, interest revenue, and rent revenue.
- *Expenses* are outflows or other uses of assets during a period as a result of delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations. Examples are cost of goods sold, salaries expense, and interest expense.
- *Gains* are increases in owners' equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and events affecting the entity during the accounting period, except those that result from revenues or investments by owners. Examples are a gain on the sale of a building and a gain on lawsuits.
- *Losses* are decreases in owners' equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and events affecting the entity during the accounting period except those that result from expenses or distributions to owners. Examples are losses on the sale of investments and losses on lawsuits.
- *Net Income* is the excess of all revenues and gains for a period over all expenses and losses of the period. Net loss is the excess of expenses and losses over revenues and gains for a period.

The income statement presents the results of a company's operations for a given time period.
There are two income statement formats that are generally prepared: The single-step statement and the multi-step statement.
The *single-step income statement uses only one subtraction to arrive at net income:*

An extremely condensed income statement in the single-step format would look like this:

Sample Products Co.
Income Statement
For the Five Months Ended May 31, 2018

Revenues & Gains	$108,000
Expenses & Losses	90,000
Net Income	$ 18,000

The *heading of the income statement conveys critical information. The name of the company appears first, followed by the title "Income Statement." The third line tells the reader the time interval reported on the profit and loss statement.*

Since income statements can be prepared for any period of time, you must inform the reader of the precise period of time being covered (for example: Year Ended May 31 or Month Ended May 31.)
A sample income statement in the single-step format with more details would look like this:

Sample Products Co.
Income Statement
For the Five Months Ended May 31, 2018

Revenues & Gains	
Sales revenues	$100,000
Interest revenues	5,000
Gain on sales of assets	3,000
Total revenue & gains	108,000
Expenses & Losses	
Cost of goods sold	75,000
Commissions expense	5,000
Office supplies expense	3,500
Office equipment expense	2,500
Advertising expense	2,000
Interest expense	500
Loss from lawsuit	1,500
Total expenses & losses	90,000
Net Income	$ 18,000

An alternative to the single-step income statement is the *multiple-step income statement because it uses multiple subtractions in computing the net income shown on the bottom line***.**
The multiple-step statement segregates the operating revenues and operating expenses from the non operating revenues, non operating expenses, gains, and losses. The multiple-step income statement also shows the *gross profit (net sales minus the cost of goods sold).*
Here is a sample income statement in the multiple-step format:

Using the above multiple-step income statement as an example, we see that there are three steps needed to arrive at the bottom line Net Income:

- Cost of goods sold is subtracted from net sales to arrive at the *gross profit:*
  $100,000 – $75,000 = *$25,000*
- Operating expenses are subtracted from gross profit to arrive at *operating income:*
  $25,000 – $13,000 = *$12,000*
- The net amount of non operating revenues, gains, non operating expenses and losses is combined with the operating income to arrive at the *net income (or net loss):*
  $12,000 + $6,000 = *$18,000*

There are *three main benefits to using a multiple-step income statement instead of a single-step income statement:*

- The multiple-step income statement clearly states the gross profit amount. Many readers of financial statements monitor a company's *gross margin* (gross profit as a percentage of net sales). Readers may compare a company's gross margin to its past gross margins and to the gross margins of the industry.
- The multiple-step income statement presents the subtotal *operating income,* which indicates the profit earned from the company's primary activities of buying and selling merchandise.
- The bottom line of a multiple-step income statement reports the net amount for all the items on the income statement. If the net amount is positive, it is labeled as *net income*. If the net amount is negative, it is labeled as *net loss*.

Balance Sheet

The balance sheet, also called the *statement of financial position,* reports a company's financial position based on its assets, liabilities, and equity at a single moment in time.
Unlike the income statement, the balance sheet does not report activities over a vast time frame. The balance sheet is essentially a *picture* of a company's resources, debts, and ownership on a given day.
This is why the balance sheet is sometimes considered less reliable or less telling of a company's current financial performance. Annual income statements look at performance over the course of 12 months whereas the balance sheet only focuses on the financial position of one day.

The Balance Sheet reports a firm's financial position at a single moment in time.

The balance sheet is basically a report version of the accounting equation (also called the balance sheet equation) where assets always equal liabilities plus shareholder's equity.
In this way, the balance sheet shows whether the resources controlled by the business (*assets*) are financed by debt (*liabilities*) or shareholder investments (*equity*). Investors and creditors generally look at the statement of financial position for insight as to how efficiently a company can use its resources and how effectively it can finance them.
Accountants usually prepare *classified balance sheets.* "Classified" means that the balance sheet accounts are presented in distinct groupings, categories, or classifications. An outline of a balance sheet using the balance sheet classifications is shown here:

Example Company
Balance Sheet
December 31, 2018

ASSETS	LIABILITIES & OWNER'S EQUITY
Current assets	Current Liabilities
Investments	Long-term liabilities
Property, plant, and equipment	Total liabilities
Intangible assets	
Other assets	Owner's equity
Total assets	Total liabilities & owner's equity

Most accounting balance sheets classify a company's assets and liabilities into distinctive groupings such as Current Assets; Property, Plant, and Equipment; Current Liabilities; etc. These classifications make the balance sheet more useful.

One thing to note is that just like in the accounting equation, total assets equal total liabilities and equity. This is always the case. In this example, total assets are $770,000 and total liabilities plus stockholders' equity are $770,000 as well.
The balance sheet gives us an idea of a firm's financial position:

- The company has total assets of $770,000 – such as $2,100 in cash, $40,500 in accounts receivable and $337,000 in property, plant & equipment.
- The company has liabilities of $481,000 ($61,000 current liabilities plus $420,000 long-term debt). The company has equity of $289,000.
- The firm's total assets equal the firms's total liabilities and equity. This is not only true for this company but for all balance sheets.

Example Company
Balance Sheet
December 31, 2014

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	$ 2,100	Notes payable	$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
		Notes payable	20,000
Property, plant & equipment		Bonds payable	400,000
Land	5,500	Total long-term liabilities	420,000
Land improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS' EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	229,000
Total intangible assets	305,000	Less: Treasury stock	(50,000)
		Total stockholders' equity	289,000
Other assets	3,000		
Total assets	$ 770,000	Total liabilities & stockholders' equity	$ 770,000

The notes to the sample balance sheet have been omitted.

Now that the balance sheet is prepared and the beginning and ending cash balances are calculated, the *statement of cash flows* (next chapter) can be prepared.

Like all financial statements, the balance sheet has a heading that display's the company name, the title of the statement and the time period of the report:

Cash Flow Statement

The cash flow statement, also called the *statement of cash flows*, reports the cash generated and used during the time interval specified in its heading. The cash flow statement shows investors and creditors what transactions affected the cash accounts and how effectively and efficiently a company can use its cash to finance its operations and expansions.

This is particularly important because investors want to know the company is financially sound while creditors want to know the company is liquid enough to pay its bills as they come due. In other words, does the company have good cash flow?

The cash flow statement reports the cash generated and used in a specific time period.

Cash inflows and outflows are classified into three activities:

- *Operating activities* refer to the main operations of the company such as the rendering of professional services, acquisition of supplies, selling of inventories, and others. In general, operating activities refer to those that involve current assets and current liabilities.
- *Investing activities* may be summed up as: "where the company puts its money for long-term purposes", such as the acquisition of property, plant, and equipment; and investment in long-term securities. In general, investing activities include transactions that involve non-current assets.
- *Financing activities* refer to: "where the company gets its funds", such as investment of the owner/s, and cash proceeds from a bank loan and other long-term payables. In general, financing activities include those that affect non-current liabilities and capital.

Because the income statement is prepared under the *accrual* basis of accounting, the revenues reported may not have been collected. Similarly, the expenses reported on the income statement might not have been paid. You could review the balance sheet changes to determine the facts, but the cash flow statement already has integrated all that information. As a result, smart business people and investors utilise this important financial statement.

Example:

On January 2, 2014 Matt invests $2,000 of his personal money into his sole proprietorship, Good Deal Co. On January 20, Good Deal buys 14 graphing calculators for $50 per calculator—this is about 50% less than the selling price Matt has observed at the retail stores. The total cost to Good Deal for all 14 calculators is $700. Good Deal has no other transactions during January.

Matt prepares the Cash Flow Statement for his new business as of January 31, 2014. Like all financial statements, the statement of cash flows has a heading that display's the company name, the title of the statement and the time period of the report. It also lists the operating, investing and financing activities:

Good Deal Co.
Statement of Cash Flows
For the Month Ended January 31, 2014

Operating Activities	
Net income	$ 0
Increase in inventory	(700)
Cash provided (used) in operating activities	(700)
Investing Activities	0
Financing Activities	
Investment by owner	2,000
Net increase in cash	1,300
Cash at the beginning of the month	0
Cash at the end of the month	$1,300

The cash flow statement reports that Good Deal's *operating activities* resulted in a decrease in cash of $700. The decrease in cash occurred because the company increased its inventory by $700 during January. The *financing activities* section shows an increase in cash of $2,000 which corresponds to the increase in Matt Jones, Capital (Matt's investment in the business). The net change in the Cash account from the owner's investment and the cash outflow for inventory is a positive $1,300.

This net change of $1,300 is verified at the bottom of the cash flow statement. There was $0 cash on January 1, but on January 31, the Cash balance is $1,300.

Financial Analysis

You now know how to read the three most important financial statements. But in this chapter we will go one step further: we will learn to analyse and interpret these statements. You will be able to answer questions like: Is this company doing well? Is it risky to invest? Is company A or B doing better?

Why Financial Analysis?

By using a variety of methods to analyse the financial information included in the statements, users can determine the risk and profitability of a company. The most popular method is the use of financial ratios. Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis.
The financial analysis relies on comparing or relating data in a way that enhances the utility or practical value of the information. For example, when analysing a particular company, it is helpful to know that it has generated a net income of $100,000 for the year, but it is even more helpful to know that, in a previous year, it had only generated a net income of $25,000.
As more information is added, such as the total amount of sales, the number of assets and the cost of goods sold, the initial information becomes increasingly valuable, and a more complete picture of a company's financial activity can be derived. Financial analysis allows for a number of comparisons. The four most common comparisons are:

- Between companies
- Between industries
- Between different time periods for one company
- Between a single company and its industry average

In general, financial ratios can be broken down into five main categories:

- Profitability ratios indicate the amount of income that the company retains.
- Liquidity ratios analyse the ability of a company to pay off its current liabilities.
- Solvency ratios (leverage ratios) quantify the firm's ability to repay long-term debts.
- Efficiency ratios showcase the effectiveness of the firm's use of resources.
- Market ratios estimate the attractiveness of a potential or existing investment.

All five categories carry many important ratios that offer insight into the company's operations. You can learn more about them in the sub reference "Financial Performance". Although all of these ratios are important, we want to highlight four of them for you in the next chapters.

Profit Margin

Profit margin is one of the most analysed numbers a company can produce, and it plays a part in many other financial measures. Profit margin refers to the amount of *profit* that a company earns through *revenue*. Typically expressed as a percentage, net profit margins show how much of each dollar collected by a company as revenue translates into profit. The net profit margin is calculated by dividing net profit and revenue.

Companies need to have a positive profit margin in order to earn income. Only in a few cases having a negative profit margin may be advantageous (e.g. intentionally selling a new product below cost in order to gain market share). A low profit margin indicates a low margin of safety.
Example:
We calculate the profit margin of Peter's Store with the help of the income statement:

Peter's Computer Store Income Statement For the Year Ended December 31, 2018		
Service Revenue		$ 160,000
Less: Expenses		
Salaries Expense	$ 40,000	
Supplies Expense	28,000	
Rent Expense	10,000	
Utilities Expense	11,000	
Depreciation Expense	5,000	94,000
Net Income		$ 66,000

For Peter's Computer Store the profit margin is:

This means that 41 cents of each dollar collected as revenue by the company translates into profit. In order to determine if a profit margin of 0.41 (or 41 percent) is a good value, it needs to be compared against other companies.
Profit margin varies greatly between companies and industries. Care should also be taken when comparing profit margin over time, as many companies and industries are cyclical. This is why comparisons are generally most meaningful among companies within the same industry, and the definition of a "high" or "low" net income should be made within this context.

Current Ratio
The current ratio is a liquidity ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year. The current ratio is calculated by dividing current assets by current liabilities.

The current ratio helps investors and creditors understand the liquidity of a company and how easily that company will be able to pay off its current liabilities. For example, a current ratio of 4 would mean that the company has 4 times more current assets than current liabilities. A higher current ratio is always more favourable than a lower current ratio because it shows the company can more easily make current debt payments.
Example:
Susie's Sushi is applying for loans to help fund her dream of expanding her restaurant. Her bank asks for her balance sheet so they can analysis her current debt levels. According to Susie's balance sheet, she reported $100,000 of current liabilities and only $25,000 of current assets. Her current ratio would be calculated like this:

25,000$/100,000$ = 0.25
As you can see, Susie only has enough current assets to pay off 25 percent of her current liabilities. This shows that Susie is highly leveraged and highly risky. Banks would prefer a current ratio of at least 1 or 2, so that all the current liabilities would be covered by the current assets. Since Susie's ratio is so low, it is unlikely that he will get approved for her loan.

Debt-to-Equity Ratio
The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).
The debt to equity ratio is calculated by dividing total liabilities by total equity.
Each industry has different debt to equity ratio benchmarks, as some industries tend to use more debt financing than others. A debt ratio of .5 means that there are half as many liabilities than there is equity. In other words, the assets of the company are funded 2-to-1 by investors to creditors.
A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered riskier to creditors and investors than companies with a lower ratio.
Example:
Assume the restaurant Susie's Sushi has $100,000 of bank lines of credit and a $500,000 mortgage on its property. The shareholders of the company have invested $0.9 million. The Debt-to-Equity Ratio is:
(100,000+500,000)/900,000 = 0.67

The real use of debt-to-equity ratio is in comparing the ratio for firms in the same industry. If a firm's debt-equity ratio varies significantly from its competitors or the averages for its industry, this should raise a red flag. Companies with a ratio that is too high can be at risk as they might not be able to meet their debt obligations.

Return on Equity (ROE)
Typically, shareholders want to know how *profitable* their capital is in the businesses they invest it in. That's where Return on Equity (ROE) comes in handy. ROE is a financial ratio that measures how good a company is at generating profit. Return on equity is calculated by taking the firm's net profit and dividing the result by equity.
In essence, ROE measures how efficient the company is at generating profits from the funds invested in it. A company with a high ROE does a good job of turning the capital invested in it into profit, and a company with a low ROE does a bad job.

Example:
We can calculate the ROE of a company with the help of the income statement (net profit can be found here), and the balance sheet (equity can be found here). Let's assume that a company has a net profit of $1 million and equity of $8 million. This results in an ROE of:

1,000,000/8,000,000 = 0.125

The higher the ROE, the better the company is at generating profits. This company has an ROE of 12.5%. ROE is especially used for comparing the performance of companies in the same industry. ROEs of 15-20% are generally considered good, but what counts as "good" really varies by company, industry, and economic environment. If the average ROE in this industry is 20%, a value of 12.5% would be somewhat worrisome. This would mean that the company's management has to improve its ability to generate income from the equity available. If it fails to do so, it might risk being overtaken by the competition.

Time Value of Money

Time value of money (TVM) is the idea that money that is available at the present time is worth more than the same amount in the future, due to its potential earning capacity. TVM is one of the most fundamental concepts in business and finance.

What is TVM?

Imagine you are lucky enough to have someone come up to you and say: "I want to give you $1,000. You have two options: You can have $1,000 right now or I can give you $1,000 in a year from now. What would you prefer?"
Presumably, you would ask to have the $1,000 right now, because of risk, opportunity cost and inflation:

- First of all, there is a certain amount of risk associated with waiting for a year. The person might simply disappear and you'll get $0. The person might lose $500 and you'll only get $500.
- Secondly, prices of everyday items might increase (inflation) in a year and with the same $1,000, you will be able to buy fewer things.
- Thirdly, let's don't forget about opportunity cost. If you have $1,000 today and invest it with a 10% interest rate, you'll end up with $1,100 in a year from now. Thus, if you choose option two, you are essentially missing out good investment opportunities.

One of the most fundamental concepts in finance is the Time Value of Money (TVM). It is the concept that money is worth more today than it is in the future.
Let's take a look at another example. Imagine the same person asks you whether you prefer $1,000 today or $1,100 a year from now. The $1,000 is the "present value" and the $1,100 is the "future value" of the money. In this case, if the interest rate used in the calculation is 10%, there is no difference between the two.
The time value of money matters because you will use it in your daily consumer, business and banking decision making. All of these systems are driven by the idea that lenders and investors earn interest paid by borrowers in an effort to maximise the time value of their money. Your job is to limit the cost of money to you and to increase returns on your investments.

Simple and Compound Interest

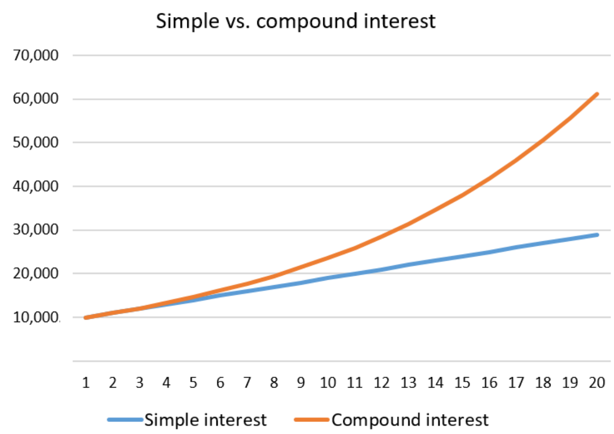
There are two primary ways of determining how much an investment will be worth in the future if the time frame is more than one period.

	Simple Interest			Compound Interest		
Year	Principal	Interest $	Total Interest	Principal	Interest $	Total Interest
1	$10,000	$1,000	$1,000	$10,000	$1,000	$1,000
2	$10,000	$1,000	$2,000	$11,000	$1,100	$2,100
3	$10,000	$1,000	$3,000	$12,100	$1,210	$3,310
4	$10,000	$1,000	$4,000	$13,310	$1,331	$4,641
5	$10,000	$1,000	$5,000	$14,641	$1,464	$6,105
6	$10,000	$1,000	$6,000	$16,105	$1,611	$7,716
7	$10,000	$1,000	$7,000	$17,715	$1,772	$9,488
8	$10,000	$1,000	$8,000	$19,487	$1,949	$11,437
9	$10,000	$1,000	$9,000	$21,436	$2,144	$13,581
10	$10,000	$1,000	**$10,000**	$23,579	$2,358	**$15,939**

- The first concept of earning interest is called *simple interest*. Simple interest is calculated on the principal, or original, amount of a loan. Your total balance will go up each period because you earn interest each period, but the interest is paid only on the amount you originally borrowed/deposited.
- The second way of accruing interest is called *compound interest*. Compound interest allows your money to continue growing faster and faster the longer you have it invested because the interest you earn is rolled back into your principal so it can start earning interest as well. In this case, interest is paid on interest!

To understand why compound interest is so great, you have to see it side by side with simple interest. In this example, we are using a starting *principal balance of $10,000* and a *10 percent interest rate*. With simple interest, the principal balance remains the same throughout, but with compound interest, the interest payment is rolled into the principal each year:

At the end of 10 years, you will receive more than 50 percent more money in interest payments with compound interest ($15,939) than you do with simple interest ($10,000).
As you can see in the graph below, simple interest increases your balance linearly each year. Using compound interest, your balance will grow exponentially.



Budgets

One of the keys to running a business is the ability to predict how it will perform financially. A *budget* is a financial plan for a defined period, often one year. Companies, governments, but also families and individuals use it to express strategic plans of activities or events in measurable terms.

Why Budgets?

A budget is nothing more than a written estimate of how an organisation – or a particular project, department, or business unit – will perform financially.
The real value in budgets comes when you compare estimates of expected performance to actual performance. When the numbers match, you know that your organisation or project is performing just as it should. When the numbers differ markedly, you know that you need to ask the question "Why?" and take a very close look at what's going on.
With the speed of business increasing all the time, why bother doing budgets at all? Budgets offer the following benefits to organisations that use them:

- Budgets are milestones on the road to your goals. Every organisation has (or at least should have) goals. Budgets are quick and easy ways to see whether your organisation is on track to meet its financial goals.
- Budgets make decisions easier: When you budget a project, initiative, or business activity, you'll quickly have a picture of what it will cost. Armed with that information, you can decide whether the costs you'll incur make good business sense or not.
- Budgets can be fast: A budget can be a simple, one-page computer spreadsheet. With simple budgets, you can make changes quickly, in near-real-time, and print them out or e-mail them immediately.
- Budgets can be flexible: A budget can accommodate changes and create an up-to-date picture of how your organisation is performing.

Whereas extensive, long-range (strategic) planning seems increasingly less valuable to most organisations today, near-term (tactical) planning is becoming incredibly valuable. Budgets are a very necessary part of the tactical planning process.

Types of Budgets

There are three key approaches to developing a budget:

Each budget type has its advantages and disadvantages, and each type can work well – although the pendulum is clearly swinging in favour of the bottom-up approach:

- *Bottom-up Budgeting*: In bottom-up budgeting, supervisors and middle managers prepare the budgets and then forward them up the chain of command for review and approval. Middle managers have the benefit of close working knowledge of the organisation and its financial performance. As a result, bottom-up budgets tend to be more accurate than top-down budgets. In addition, bottom-up budgets can have a positive impact on employee morale, because employees assume an active role in providing financial input to the budgeting process.
- *Top-down Budgeting*: In this approach, top management prepares the budgets and imposes them on the lower layers of the organisation – generally without any consultation or involvement on the part of those outside of top management. Top-down budgets clearly express the performance goals and expectations of top management. These budgets, however, can be unrealistic, because they don't incorporate the input of the very people who will implement them.
- *Zero-based Budgeting*: The process in which each manager prepares estimates of his or her proposed expenses for a specific period of time, as though they were being performed for the first time. In other words, each budgeted activity starts from a budget base of zero. By starting from scratch at each budget cycle, managers must take a close look at all their expenses and justify them to top management, thereby (at least in theory) minimising waste.

Variance Analysis

A simple way to keep your eye on the numbers is through variance analysis. In simple terms, variance analysis is a comparison of the financial estimates that you budget for a particular period with your firm's actual financial results. The variance is the difference between budget and actual – which can be positive, negative or zero. This method gives you an immediate picture of financial issues that may require a closer look on your part.

In the following monthly expense report example, look at the variance between the budget and the actual figures:

Expenses	Budget	Actual	Variance
Rent	$1,400	$1,400	$0
Wages	$10,000	$12,500	$2,500
Taxes	$1,300	$1,500	$200
Insurance	$1,000	$1,500	$500
Total expenses	$13,700	$16,900	$3,200

In this example, fixed expenses were originally budgeted at $13,700 for the month. However, when the month ended, the accounting system reflected actual fixed expenses of $16,900. This resulted in a total variance — or over-pending — of $3,200.

After you determine that you have a budget variance for the period in question, the next step is to decide whether it's significant and, if so, to figure out why it occurred. A variance of $3,200, which is 23 percent of the original budget of $13,700, is definitely significant and warrants a very close look by the responsible manager.

If you were that manager, what would you identify as the most significant variance in the table above? A quick look indicates that wages are the main source of the variance, with spending for the period totalling $2,500 more than the plan. This may mean that employees are charging excessive overtime, someone got a raise that you hadn't anticipated or any number of other possibilities. As the manager, it's your job to determine the reason behind the numbers and then decide if corrections need to be made.

Variances are not limited to expenses like in the example above. You can create variances for all kinds of key performance indicators in your company. Most commonly-derived variances used in variance analysis include the purchase price variance, labor rate variance, selling price variance, labor efficiency variance, and many more.

It is not necessary to track all of the preceding variances. In many organisations, it may be sufficient to review just one or two variances. For example, a consulting business might be solely concerned with the labor efficiency variance, while a manufacturing business in a highly competitive market might be most concerned with the purchase price variance.

Financial Markets

A *financial market* brings buyers and sellers together to trade in financial assets such as stocks, bonds, commodities, derivatives, and currencies. The purpose of a financial market is to set prices for global trade, raise capital, and transfer liquidity and risk.

Although there are many components to a financial market, two of the most commonly used are money markets and capital markets.

The *Money Market* is an unorganised arena of banks, financial institutions, bill brokers, money dealers, etc. wherein trading on short-term financial instruments is being concluded. These markets are also known by the name wholesale market. Trade Credit, Commercial Paper, Certificate of Deposit, Treasury Bills are some examples of the short-term debt instruments. They are highly liquid in nature, and that is why their redemption period is limited to one year. They provide a low return on investment, but they are quite safe trading instruments. Money Market is an unsystematic market, and so the trading is done off the exchange, i.e. Over The Counter (OTC) between two parties by using phones, email, fax, online, etc. It plays a major role in the circulation of short-term funds in the economy. It helps the industries to fulfil their working capital requirement.

The *Capital Market* is a type of financial market where the government or company securities are traded for the purpose of raising long-term finance to meet the capital requirement.

The securities which are traded include stocks, bonds, debentures, euro issues, etc. whose maturity period is not limited up to one year or sometimes the securities are irredeemable (no maturity). The market plays a revolutionary role in circulating the capital in the economy between the suppliers of money and the users.

	Money Market	*Capital Market*
Meaning	Short-term securities are issued and traded	Long-term securities are issued and traded
Financial Instruments	Government Securities, Certificate of Deposit, Commercial Papers (CPs), etc.	Shares, Bonds, Debentures, etc.
Risk Factor	Low	High
Return on Investment	Low	High
Time Horizon	Less than one year	More than one year

In conclusion, capital markets offer higher-risk investments, while money markets offer safer assets. Money market returns are often low but steady, while capital markets offer higher returns.

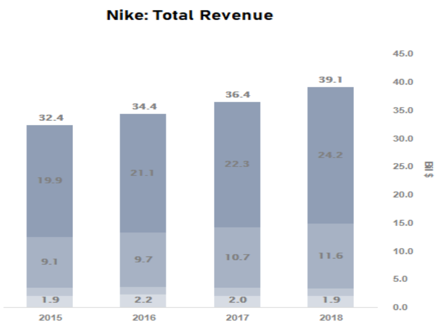
Case Study: Adidas & Nike

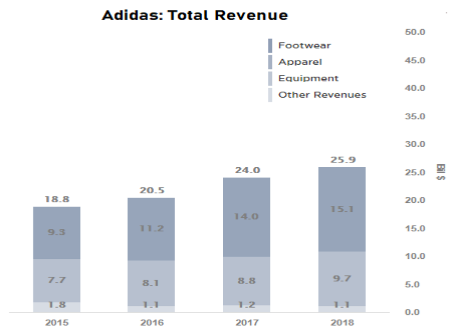
Nike and Adidas are the two largest sportswear brands in the world. Effective marketing strategies and innovative products have helped the two companies outperform the broader apparel industry over the last decades. In this short case study, we want to analyse how the two businesses have evolved financially between 2015 and 2018.

Nike is a multinational American sportswear company headquartered in Beaverton, US. It was founded by Bill Bowerman and Phil Knight, who were driven by their passion to design better footwear for athletes in 1964. The business only had one shoe and one t-shirt within its portfolio in the initial years, but now sells thousands of sporting products in 170 countries spanning around the world.

Adidas is a multinational corporation headquartered in Herzogenaurach, Germany, that designs and manufactures shoes, clothing, and accessories. It was founded by Adi Dassler in 1924, when he operated the company out of a washroom and focused on footwear by registering the famous three-stripe design that Adidas still lives by today. The firm now sells products in 160 countries. His brother, Rudolf Dassler, established Puma, which became Adidas' business rival.

Total Revenues

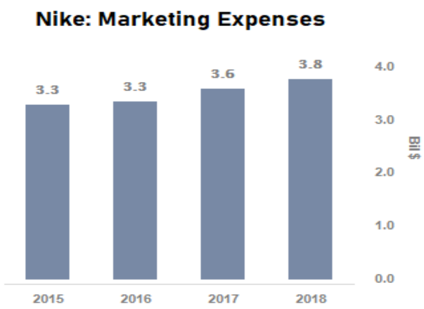


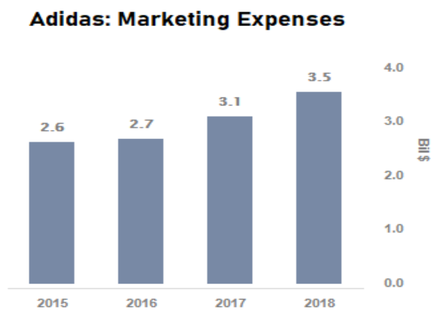


Today, Nike is the most valuable brand among sports businesses. However, Adidas has been able to close the gap on the market leader over recent years through increased marketing spend. In the following charts, we can see how the total revenue of both companies evolved from 2015 to 2018.

Nike has added roughly $6.7 billion to total revenue since 2015, increasing at an average annual rate of 6.5%. On the other hand, Adidas has been able to add roughly $7 billion to total revenues, growing at an average annual rate of 11.3%. However, Nike is notably bigger than second-placed Adidas. Nike's total revenue in 2018 stood at $39 billion – much more than Adidas' $26 billion.
This growth has been led by the apparel and footwear segment which have continued to achieve robust growth in the last couple of years driven by continued global trends such as increasing penetration of sportswear, rising sports participation rate, and increasing health awareness.

Marketing Expenses
Adidas's strong growth over recent years can be attributed at least partially to its increased marketing spend:

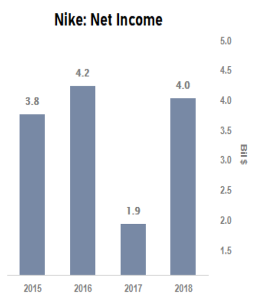


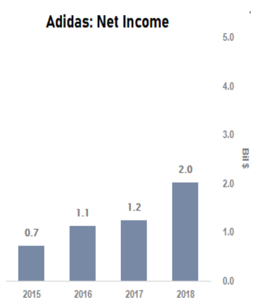


Adidas has been more aggressive than Nike in marketing its products. As of 2018, Adidas' marketing expenditure stood at $3.5 billion – representing roughly 14% of total revenues. On the other hand, Nike's marketing expenditure of $3.8 billion was higher than of Adidas but represented less than 10% of Nike's total revenues.

Net Income and Profit Margin
In the following charts, we can see how net income, as well as the net profit margins of both companies, evolved between the years 2015 and 2018:

In 2018, Nike's net income of $4 billion was twice as high as Adidas' $2 billion. Moreover, Nike's net income margin of 10.3% was higher than Adidas' margin of 7.8%. However, since 2015, Nike's profit margin has had its ups and downs while Adidas, led by strong revenue growth, has been able to steadily increase its margin.





Outlook
Nike has a larger scale and higher profitability than Adidas, but the latter seems to be closing the gap over the last few years – as evident from Adidas' strong revenue growth and aggressive marketing expenditure. That said, both Adidas and Nike have expanded the scale and scope of their operations over time by adding new brands.
Both companies have also launched effective buzz marketing campaigns with both innovative products and celebrity endorsements and collaborations. Nike and Adidas have outperformed the other apparel, particularly footwear companies, in the past few years and we expect this trend to continue in the foreseeable future.

HUMAN RESOURCE MANAGEMENT

Introduction

Welcome to Human Resource Management!

Recruiting, selecting, hiring, and retaining competent employees as well as implementing the right internal structures and processes have always been essential for every organisation.

In this course, we will dive into the exciting fields of human resource management and organisational behaviour. *Human Resource Management (HRM)* includes all management decisions that affect people within an organisation. Today, in a business world shaped by globalisation and technological revolutions, this task may be more important than ever before: businesses, human resource departments, and managers have to react to those changes and must offer flexible strategies. It is important to understand that all management decisions have impacts on human resource management and therefore HRM should be linked to all organisational processes.

Organisational behaviour (OB) is the study of how individuals and groups perform together within an organisation. OB focuses on the best way to manage individuals, groups, and organisations. Organisational behaviour includes management theories and practices of motivation, and the fundamentals of organisational structure and design. Knowledge about organisational behaviour can provide managers with a better understanding of how their company can make its processes more effective and efficient, thus allowing the firm or organisation to successfully adapt to changing circumstances.

From the smallest nonprofit to the largest multinational firm, all organisations have to manage human resources and organisational behaviour.

Human Resource Planning

Managers and organisations have to develop a plan for how human resources will be needed to meet short- and long-term goals. If, for example, a company decides to open a new store, the human resource component is an essential part of the strategic planning.

Staffing Plan

Human resources planning starts by conducting an analysis of staffing needs. This could mean either assessing the current staffing requirements or projecting future requirements. In either situation there are several questions that need to be answered:

- What is the organisation's vision and what are the short-term and long-term goals?
- Can any major changes in the market impact the organisation's future?
- What changes in staffing, if any, are needed to support the overall vision?

A staffing plan involves evaluating the human capacity needed to meet the needs of the organisation and estimating the number of people needed for each unit. This process does require a lot of experience and understanding of the specific business.

If the managers are new to the company, a good benchmark would be comparing the number of employees needed in similar organisations or gathering some sort of useful statistics. Here are some signs that the current staffing needs are not well planned:

- Regular breakdowns in the process flow (like missed deadlines, increased returns, decreased customer loyalty, and regular administration mistakes)
- Frequent employee absenteeism and turnover caused by employees being over-stressed or having poor morale
- Regularly occurring overtime caused by employees being overworked. Overworking employees can lead to burnouts and increased costs in the long run.

Staff planning is a systematic process to ensure that an organisation has the right number of people with the right skills to fulfil its business needs.

Job Descriptions

Once a staffing plan is developed, *job descriptions* can be created. This process involves analysing each job in the organisation in order to generate job specifications, and then these are aggregated at a firm-wide level. Some thought should be put into them due to the nature of employees using job descriptions to define their actions.

The *job analysis* involves collecting information to form a complete understanding of what is necessary to perform the job. A job description lists the activities that the employee performs, as well as the skills and qualities that are needed to successfully meet the job objectives. Think of this stage of human resources planning as if you were a

newly appointed sports coach. Firstly, you would identify the positions you would need to complete the roster, secondly, the qualities you would like for each player, specific to each position.
Once the job analysis and job descriptions are determined, this information can then be aggregated to form a human resource inventory to track what skills and capabilities need to be filled in to complete the human resources requirements. When completed correctly, job descriptions can be a very important tool and can be used in many different functions, including:

- Giving employees a gauge of how they will be evaluated within the organisation.
- Helping determine the compensation level for individual positions.
- Establishing hiring criteria for specific positions, and giving candidates responsibility expectations.

A typical outline of a job description includes:

1. Job Title
   Specific title that would be included in an organizational chart
2. Overall Description
   A brief description of the responsibilities
3. Reporting To
   List of person(s) to whom this position reports
4. Duties
   A list of regular duties this position would be expected to perform
5. Requirements:
   A list of mandatory or preferred requirements for the position
6. Criteria:
   Specific skills, experience, and knowledge

A job description is an internal document that clearly states the essential job requirements, duties, responsibilities, and skills required to perform a specific role. A more detailed job description might even cover how success is measured in the role so it can be used during performance evaluations.

Recruitment and Selection

Once the planning part of the process is completed, the organisation will set forth to implement this plan through the next set of human resource concepts and tactics: recruitment, selection, appraisal, rewards, as well as employee training and development.

Recruitment

Recruitment is the process by which companies attract candidates to fill present and future positions, and the appropriate method varies from company to company. In most cases, the human resources department in the company will work together with managers in departments throughout the company to determine a recruitment method and approach.
Many recruitment methods are available, including Internet and print advertisements, employee referrals, and outsourced agencies ("headhunter" executive placement firms, job placement agencies, etc.) that perform recruitment services for the company, either on a fixed-fee arrangement, much like a consulting relationship, or on a performance-based basis where the fee is a percentage of the employee's salary. In some cases, the employee will pay the fees associated with such outsourced services, but more often the company will pay these fees. Other recruitment tactics include job fairs and college recruiting and might involve a combination of several methods.
There are *two ways* to fill a vacant position: by internal or external recruitment.

Hiring from within the organisation (*internally*) allows the manager to choose from a known pool of talent and can minimise misperceptions among candidates about the actual requirements of the position. In addition, hiring from within can be cost-effective and provide motivation for existing employees.
Generally, it is advisable to look outside the company (*externally*) when specific skills are required for the position and existing employees may not be reasonably expected to train for or learn these skills. The decision to look outside the company tends to be more appropriate when there is a specific need to fill, such as technical requirements. Hiring from outside also helps to avoid the ripple effect of frequent internal staffing changes and the employee "musical chairs" syndrome that does not give staff time to mature into their respective jobs.

Finally, recruiting outside the company can be an effective way to import experience and creativity or new ways of doing things. This infusion of outsider perspectives and approaches can infuse the company with a fresh look at its processes and systems.

Selection

The recruitment process will result in a pool of candidates from which the organisation has to select the right employee. This usually involves a combination of different *selection methods*.
Interviews and reference checks are the most commonly used, but other methods are available depending on the specific demands of the position. For example, background checks are appropriate when a position requires that the employee has significant customer interaction or if the prospective employee has a fiduciary responsibility with the company.

Other selection methods include:

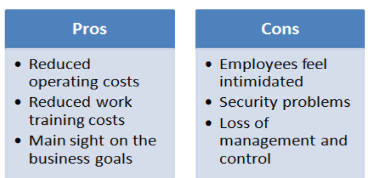
- *Skill performance tests/work samples* – for example, a graphic artist may bring in a portfolio of past projects, or a data entry candidate may be given a simulated work assignment.
- *Personality tests* – used especially in customer contact recruitment and selection (e.g., salespersons and customer service candidates).
- *Physical abilities tests* – used in many job requirements where the physical condition is an essential element in job productivity or success (e.g., a product installation or delivery job).
- *Drug tests* – an increasingly used tool to ensure the selection of candidates who do not involve themselves in chemical or substance dependency.

Face-to-face interviews can be extremely revealing but must be well prepared. The goal of an interview should be to learn whether the candidate has the competencies and technical skills that are most critical to the job, and questions should be prepared for each area.
The interviewer's questions should focus on behaviours, not opinions, and may involve asking applicants to provide examples from their past experiences. Interviews provide an opportunity to read body language and the applicants' ability to "think on their feet," often replicating the realities of life on the job. Additionally, to ensure good fit with the culture of the company, an initial interview is often followed up by several more representing the other employees with whom the potential hire may work, as well as company representatives at different levels and areas within the company. An important step in the interview process is to check on a prospective employee's past performances by making inquiries to former employers and references.
Four rules for more effective reference checks are:

- Ask the applicant to inform prior employers that you intend to contact them. Former managers are much more likely to provide useful information if they are aware beforehand that they will be contacted.
- Open the call by describing the corporate culture of the organisation. This provides some context for the previous employer's comments on the previous employee.
- Reassure the previous employers that the information they provide will not determine the final hiring decision, but that your goal is to learn more about the prospective hire.
- Save formal questions such as dates of employment and title until the end of the call.

Outsourcing

In the past decade, the use of "*employee leasing*" and temporary, or project-based, *outsourcing* of human resource needs has become more prevalent. In this scenario, the company contracts with another company that provides the employees for a specific need or project.
The contracted worker is an employee of the provider company, with the provider company responsible for payroll, employee taxes, benefits, and other employee-related expenses. The company hiring these contract employees is thus free of the associated bookkeeping and administrative costs of maintaining these employees on its payroll – it makes a single payment to the company from which it is leasing the employees, rather than paying the workers individually.
The upsides and downsides of outsourcing include:



These leasing or outsourcing arrangements are attractive to new or emerging companies or mature companies that may be experiencing an unusual spike in demand, or some other kind of nonrecurring event, presenting a solution for a company that needs to modify its workforce capacity with some upside or downside flexibility.

Outsourcing is an agreement in which one company contracts-out a part of their existing internal activity to another company.

Training and Development

It is one thing to be able to recruit and hire good employees, but to help them attain their full potential and to support them to become better is just as or even more important. That's why training and developing employees is so vital for any organisation today.

Orientation

Training should begin on day one of employment, with every employee given an orientation. Getting employees off to the right start is a very easy way to build a company that embraces learning and development. Most small companies do not have formal orientation programs but rely on individuals finding their way when they first get hired. This seems to work fine in smaller organisations when there are more informal means of communication, but as organisations grow, most have found that formal orientation programs are necessary to get employees up to speed and productive in a timely fashion.

Formal orientation programs can range from an hour to several days, and the level of orientation usually depends on the level of the positions. Whereas entry-level or unskilled labor will need very little orientation, experienced professionals will need quite a bit more to get up to speed with the organisation. Each organisation needs to define its own orientation needs and programs. Assigning mentors is often done in place of an orientation program to give new employees a helping hand during the first few weeks on the job.

At a minimum for small or large organisations, orientation programs should include:

- Detailed company history and overview of the current structure and products.
- Overview of employment policies and handbook (if applicable).
- Basics of compensation, benefits, and all other legal issues that arise.
- Health and safety issues.
- Information about business systems such as phone, e-mail, voice mail, and office equipment.
- Employee rewards and incentives.

Onboarding new hires at an organisation should be a strategic process. How employers handle the first few days and weeks of a new employee's experience is crucial to ensuring high retention.

Skill Training

What are the main benefits of employee development and training? In general, training…

- increases the value and capacity of the human assets of the company,
- provides an alternative to recruiting, by having qualified personnel to fill vacant positions,
- creates potential future leaders of the company, and
- helps reducing employee turnover by keeping individuals motivated and interested in their positions with the possibility of advancement.

Skill training is exactly what it says – training employees on new skill sets. This could take many forms, including training on new software, customer service techniques, or even team-building exercises. Skill training has *two main goals:*

- to maintain employees' current skill level with ever-advancing technology and business practices, and
- to give employees the necessary skills to advance through the organisation.

Every organisation is going to have a unique set of skills required of its employees. Of course, many general skills transfer from organisation to organisation very easily, but the scope of skills is usually unique for every organisation. Prior to implementing training, organisations need to follow a few **basic steps**:

- Conduct complete skill assessments, involve all levels of employees, develop core skill competencies for each position, and assess current gaps in the skill set.
- Choose the training source. Whether you choose outside consultants, assign internal trainers, or devise online training, the source has to be effective for the given skill set.
- Align training with the broad goals and objectives of the organisation. This will help employees see the importance and be more likely to jump on board with the training.

- Conduct training during work hours (this will help keep a positive attitude toward the training) and in suitable facilities.
- Plan for feedback and assessment of all training programs.

Leadership Training

As organisations grow, adapt, and mature, there comes a time when existing managers and leaders will begin to think about stepping down and looking for replacements either inside or outside the organisation. When this situation arises, managers often do not find suitable and qualified candidates with the right experience within the current organisation.

Managers typically find that internal candidates are very good at their current jobs but do not have the breadth of experiences it takes to manage teams or departments successfully. External candidates are also very experienced, but the right fit is very hard to find. One way to ensure that suitable replacements for top managers and leaders are available is to have a program or plan to develop leaders internally.

Leadership development programs are very common nowadays: the risk of not planning for the succession of current leaders is too much to bear for most organisations. That's why the leaders of organisations should ask themselves the question "Would the organisation be able to survive successfully if the CEO was the victim of a fatal accident?" If the answer to this question is no, it would be wise for management to address this issue.

Leadership development programs take many forms, but they all have similar goals of providing certain employees with the necessary skills and experience to fill the shoes of top management in the future.

Leadership development programs involve scheduled job rotations with increased responsibility with every step. High-potential individuals are usually hired into the programs, mentors are assigned, and their progress is measured regularly. These programs usually span over several years.

Of course, not every individual who enters the program is guaranteed a top management position. All program participants will have to prove themselves and take a proactive approach to develop themselves professionally; and hopefully when the time comes for management succession, there will be qualified candidates to choose from.

360-Degree Assessment

The *360-degree assessment* (also known as 360-degree feedback) is a method of systematically collecting opinions about an individual's performance from a wide range of coworkers. This could include peers, direct reports, the boss, the boss's peers, or people outside the organisation.

Purpose

The 360-degree assessment is a commonly used tool in organisations as a way of giving and receiving feedback at all levels within the organisation. Simply put, a 360-degree assessment is a system used to gather **input on** *individual employees' performance*, not only from managers and supervisors but from coworkers and from direct reports as well. Some companies also involve customers in a 360-degree assessment, especially in the case of customer-contact personnel.

More traditional feedback tools, in which only the direct manager provides feedback, can very easily lead to a one-sided and incomplete employee review. The 360-degree assessment is much more likely to provide an accurate review and assessment of an employee's performance.

Almost all large companies today use a form of the 360-degree assessment for their employees; sometimes it takes on a different name, such as full-circle or multi-source assessment. Here's how it works.

Typically all employees are given the opportunity to rate and give comments on all employees they work with on a regular basis, including managers, peers, and subordinates. Each assessment includes several different categories

for employee assessment – for example, leadership, performance management, communication, teamwork, integrity, quality, problem-solving, vision, trust, adaptability, and reliability. Each organisation develops the assessment criteria based on what it feels is important.
Once the assessment is complete, employees have the opportunity to view how their coworkers assessed their performance, and managers get to see how they are generally viewed by their subordinates.

Dell, the U.S.-based computer manufacturer, has used 360-degree assessment, and the results have led to substantial management policy changes, including forcing upper management to be more in touch with the daily operations and allowing for routine opportunities for management to interact with subordinates.
Implementing the 360-degree assessment can sometimes be very difficult and can cause more harm than good if management is not careful. Giving feedback has to be done with caution given the sensitive nature of the data and the possible defensiveness of the employees who receive it. Some employees will not be comfortable giving frank feedback to their peers.
An organisation needs to have a very high level of trust among the employees for this assessment to work effectively. If the level of trust is not established prior to the 360-degree evaluation, human tendencies such as protectiveness, revenge, and development of hierarchies take precedence and will skew the results, creating even more distrust within the ranks. If this trust level cannot be established, the 360-degree evaluation should be postponed to a later date.

The 360-degree assessment is a feedback process where not just your superior but your peers and direct reports and sometimes even customers evaluate you.

Implementation

If a 360-degree evaluation has not been used previously in the organisation, it is wise to introduce it as an internal program for personal improvement, not for management decisions. This will take the pressure off employees and allow for a more relaxed atmosphere during the process.
Many large companies have the 360-degree assessment in place for more than a year before they are able to see any benefits from the program and use it to make decisions. Employees need to feel comfortable with the system before they will actually use it as a learning tool. This can be achieved by following this 4-step-plan:

1: Start out with a test group
When first implementing the 360-degree evaluation, start out with one department or a small group of employees. The time and resources needed for a company-wide implementation could end up being substantial. Starting with a test group will provide insight on issues and problems that likely will arise and will limit the cost if the 360-degree evaluation does not work within the organisation.
2: Link the 360-degree evaluation's goals with the overall company goals
The 360-degree evaluation needs full cooperation from all employees along with a significant business reason for the implementation. If the program is linked to the overall goals, individual employees will have an easier time accepting and providing value.
3: Train employees
The 360-degree evaluation may include hiring an outside firm to handle the process, or if it is handled internally, there need to be assigned roles and responsibilities. The employees who are responsible need to be trained on all aspects of the evaluation; they must ensure that complete trust is held throughout the process.
4: Turn the results into an action plan
Once the evaluation is complete, request ideas for an action plan from all employees. Hold meetings if necessary or provide other means for feedback opportunities. Ongoing goals and objectives need to be set for the future in order for everyone involved to feel that the program is effective and useful.
Questions that should be asked prior to implementing a 360-degree evaluation program include:

- How ready is the organisation for the 360-degree evaluation?
- Who is going to be involved?
- Is this a mandatory or voluntary project?
- What criteria will be evaluated?
- How will the information be collected, compiled, and distributed?
- Who is going to be responsible for each activity, including planning, assessing, compiling the information, distributing the results, developing the action plan, and following through?

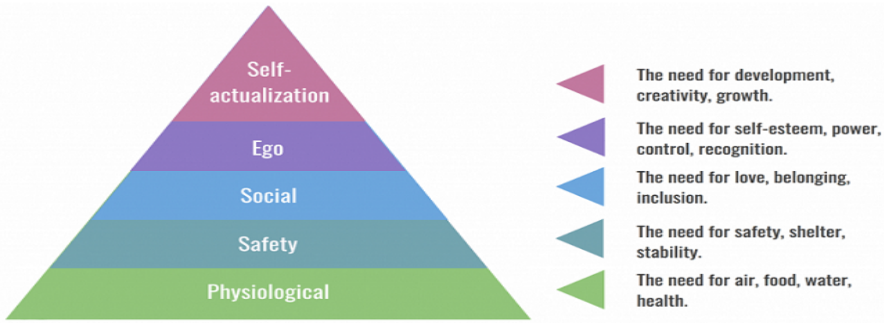
The 360-degree evaluation, if used correctly can be a valuable organisational tool that will provide a path for personal and organisational development. It can help direct and mold the corporate culture, set goals, and create camaraderie among employees.

Motivation and Satisfaction

Motivation is an important driver in any organisation. It often determines how much effort employees will put into accomplishing their tasks and it is strongly tied to job satisfaction. *Job satisfaction* expresses how individuals feel about the tasks they are supposed to accomplish.

Maslow: Hierarchy of Needs

In 1943, the American psychologist Abraham Maslow developed a theory about human motivation called the *hierarchy of needs.* This theory is still very popular and describes human needs in five general categories. According to Maslow, once an individual has met the needs in one category, he or she is motivated to seek needs in the next higher level. Maslow's hierarchy of needs consists of the following categories:



- *Physiological needs:* These are the first and lowest level of needs. They relate to the most basic needs for survival and include the need for food and shelter.
- *Safety needs***:** The second level of needs involves an individual's need for security, protection, and safety in the physical and inter-personal events of daily life.
- *Social needs***:** The third level of needs is associated with social behaviour. It is based on an individual's desire to be accepted as part of a group and includes a desire for love and affection.
- *Ego/Esteem needs***:** The fourth level of needs relates to an individual's need for respect, recognition, and prestige and involves a personal sense of competence.
- *Self-actualisation***:** This is the fifth and highest level of needs. Needs of this level are associated with an individual's desire to reach his full potential by growing and using his abilities to the fullest and most creative extent.

As individuals move higher in the corporate hierarchy, they may see higher-order needs as being more important than those of lower orders. Needs may also vary based on career stage, organisational structure, and geographic location.
The hierarchy of needs could also lack effective application in different cultural contexts. Certain cultures may value social needs over psychological and safety needs. In addition, the theory necessitates that a manager is able to identify and understand an employee's needs. This is not always easy and can lead to inaccurate assumptions. Taken in the proper context, however, recognising the importance of needs is a useful method for conceptualising factors of employee motivation and thus being able to direct an organisation's behaviour.

According to Maslow's hierarchy of needs, people are motivated to fulfil basic needs before moving on to other, more advanced needs.

Herzberg: Two-Factor Theory

In the 1950s, Frederick Herzberg studied the characteristics of a job in order to determine which factors served to increase or decrease workers' satisfaction. His study identified two factors related to job satisfaction: "hygiene" factors and "motivational" factors.

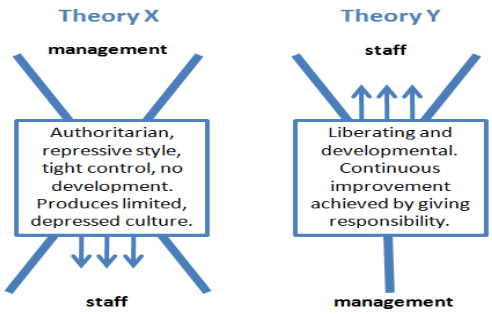
Hygiene factors:
These factors must be maintained at adequate levels. They are related more to the environment in which an employee is working rather than the nature of the work itself. Important hygiene factors include organisational policies, working conditions, relationships with peers and subordinates, status, job security, and salary. Adequate levels of these factors are necessary to prevent dissatisfaction; improving these factors beyond adequate levels, however, does not necessarily lead to an increase in job satisfaction.

Motivational factors:
These set of factors are associated with having a direct effect on increasing job satisfaction. These factors include achievement, recognition, responsibility, growth, the work itself, and the opportunity for advancement.
Like Maslow's hierarchy of needs, Herzberg's factors must be tempered by sensitivity to individual and cultural differences and require that managers identify what employees consider to be "adequate levels." Managers sometimes simplify both of these theories and inappropriately assume that they know what their employees need.

Herzberg's two-factor theory states that there are certain factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction.

McGregor: Theory X and Theory Y

Douglas McGregor's theories focus less on employee needs and more on the nature of managerial behavior. These theories are based on the assumption that a supervisor's perceptions of her employees will strongly influence the way in which she attempts to motivate her employees. McGregor created two theories based on his studies, called Theory X and Theory Y.



In the case of *Theory X*, a supervisor assumes that her employees are averse to work and will do everything they can to avoid it. Acting on this assumption, the supervisor will exert tight control over employees, monitor their work closely, and hesitantly delegate authority.
In this case of *Theory Y,* a supervisor assumes that, contrary to Theory X, workers are willing to work and would be willing to accept increased responsibilities. In light of these assumptions, the supervisor will provide employees with more freedom and creativity in the workplace and will be more willing to delegate authority
Managers will seek to motivate their employees based on their perceptions of the employees' interests. This theory brings to light the variation in practice that can exist depending on the assumptions that managers make about their employees.

McGregor developed two motivation theories and they refer to two styles of management – authoritarian (Theory X) and participative (Theory Y).

Conclusions from Theories

The three theories discussed can provide valuable insight into an organisation's behaviour. The following three conclusions can be drawn from them:
Needs:
Employees have needs. In order to motivate employees, supervisors should attempt to understand the breadth of their employees' needs. This is not always an easy task and requires open and frequent communication between managers and employees. By structuring a job so that it meets these needs a supervisor can increase an employee's motivation.

Compensation:
Compensation is an important part of motivation, with a goal to compensate employees according to the contribution each employee makes to the firm. Employees will be dissatisfied if they feel that they are getting less than they deserve. In order to decrease the likelihood of perceived inequities, a manager needs to be proactive and informative regarding reward structures.
Rewards:
Employees need to know that the goal they are working toward is achievable and that when they accomplish this goal that they will be rewarded in an appropriate and timely manner.

Compensation and Rewards

The discussion of motivational theories has shown the importance of assessing employee needs and rewards. Some of these actions include implementing an adequate compensation program, allowing for flexible work schedules, and establishing employee involvement programs.

Compensation Programs

Before determining how compensation should be set, it is necessary to align the compensation program with several elements of the business:

- *Business goals***:** A compensation plan should be developed in light of a firm's business goals. Employees should be compensated to the degree that their efforts help the business accomplish its goals.
- *Employee goals***:** A compensation plan should be clear in stating individual employee goals. In order to effectively motivate employees, they need to know what goals they will be expected to achieve.
- *Achievable goals***:** The goals that individual employees are expected to accomplish must be realistic and achievable. If employees feel that the goals associated with their positions are unreachable, they will not be motivated to work. If a supervisor can set reasonable goals and make the employee aware that numerous achievable bonuses will be given if these goals are met, the employee will be motivated.
- *Employee input:* Employees will be more satisfied with their jobs if they are consulted about the compensation plan before it is put into effect.

An adequate compensation program, taking these issues into account, will affect employee motivation; a compensation plan should give the highest relative raises to the individuals who achieve the highest levels of performance. This type of system is referred to as a merit-based pay system and bases pay on performance. It can be effectively implemented in conjunction with an incentive plan that rewards employees for achieving specific performance goals. These plans stand in contrast to a system that provides across-the-board pay raises, which will not motivate workers to put extra effort into achieving set goals.

Job Security

Employees who feel they are in danger of losing their jobs may not show high work productivity. Worker satisfaction can, and productivity may be increased by providing job security. One way firms can increase job security is by providing cross-training in other functions. This will give employees the versatility to accomplish new tasks if their current positions change or are no longer available.

Flexible Work Schedules

In today's time-pressed world, many employees view time away from work as an important factor in shaping their at-work motivation and on-job productivity. There are several methods for allowing flexible work schedules that meet the needs of employees seeking greater home/work flexibility.
A common approach towards more flexible work schedules is the so-called compressed workweek. This approach enables employees to work the same number of hours over the course of fewer days. Instead of working five eight-hour days, an employee might work four ten-hour days instead. Other examples of flexible work schedules include job-sharing where two or more people share a certain work schedule.

Employee Involvement

Employee involvement programs seek to motivate employees by increasing their responsibilities or getting them more involved in decision-making processes. There are several types of employee involvement programs; the more basic programs include job enlargement, job rotation, and teamwork. More ambitious programs include open-book management and worker empowerment.

- *Job Enlargement***:** Job enlargement is a direct way to increase job responsibility. It involves expanding a position and giving an employee a greater variety of tasks.
- *Job Rotation:* A job rotation program periodically reassigns employees to new positions. In addition to increasing employees' involvement in the firm and adjusting their responsibilities, job rotation can also

improve employees' skill sets, thereby increasing their job security. In addition, it can also relieve the boredom in the workplace associated with doing the same job over a long period of time.

- *Teamwork*: This program attempts to increase motivation by putting individuals with different positions onto a team and setting them the task of achieving a specific goal. Teamwork serves to increase an employee's responsibilities and involvement in the firm. The best types of teams are self-directed. This provides the team with the authority to make decisions regarding planning, accomplishing, and evaluating the task they are working on.
- *Open-Book Management*: Open-book management is a challenging, but direct way of increasing employee involvement and responsibility. It involves allowing employees to see how their job performance affects key performance indicators important to the firm. In order to institute this program, a firm needs to make key indicators available to employees and educate them on how to interpret key performance measures. Employees also need to be empowered to make decisions related to their positions and training and be given the opportunity to see how these decisions affect the rest of the firm. Open-book management also necessitates an adequate compensation program whereby compensation is tied to performance.
- *Worker Empowerment*: Worker empowerment attempts to increase employee job responsibility as well as employee involvement. It does this by giving employees more authority and involving them in the decision-making process. Employees who are empowered can often make better and more informed decisions than can a manager who is not directly involved in the process. Participative management is similar to worker empowerment. Although it does not provide employees with direct decision-making power, it encourages managers to consult closely with workers before making decisions. Another type of participatory management is management by objective. This approach allows employees to set their own goals and provides them with the freedom to decide how they can best achieve these goals.

But how do managers (after gaining an understanding of the theories of motivation and applying different approaches to increase job satisfaction) know that their efforts have been successful? In practice, a manager must draw conclusions on a daily basis from social observations and interactions in the workplace.
Sometimes, however, it is a good idea to conduct a more formal survey. This can be accomplished through either interviews, surveys, or focus groups that often involve only a specific group of employees.

Two useful surveys are the Minnesota Satisfaction Questionnaire and the Job Descriptive Index. Both of these surveys address areas of employee satisfaction in regard to different aspects of an organisation and provide managers with useful information. They cover work, working conditions, rewards, opportunities for advancement, and the quality of relationships with managers and coworkers.

Organisational Structure

Whether you start your own business or you want to improve an existing business, it is important to think about the firm's organisational structure: Who is responsible for accomplishing various tasks within the firm? How are employees grouped? Who manages them and how are they managed?

Five Structural Factors

In essence, the primary goal of an organisational structure is to coordinate and allocate a firm's resources so that the firm can carry out its plans and achieve its goals and objectives. The fundamentals of organisational structure revolve around five factors:

1. Division of Labor

The division of labor involves two steps: dividing work into separate tasks and assigning these tasks to workers. What are the different tasks carried out by your firm? Who is responsible for accomplishing these tasks?

2. Departmentalisation

Departmentalisation is the process of grouping similar types of jobs together so that they can be accomplished more efficiently and effectively. There are five different ways in which to departmentalise business activities. Different types of departmentalisation can exist to varying degrees within a business. What types of departmentalisation exist within your firm? Could your firm be departmentalised differently?

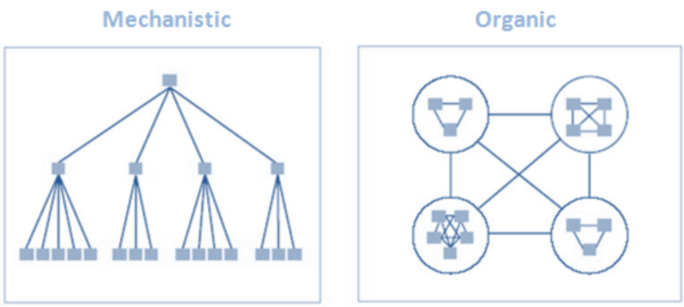
- Function: An example of functional departmentalisation would be a firm that has a marketing and finance department. It involves grouping tasks based on the function that the organisational unit accomplishes within a firm.
- Product: A consumer electronics firm that has separate departments for cameras and MP3 players is using product-based departmentalisation. In this case, departments are based on the goods or services that an organisational unit sells or provides.

- Process: A manufacturing firm that includes separate departments for assembly and shipping is an example of a firm with process-based departmentalisation. In this case, departmentalisation revolves around the production process used by the organisational unit.
- Customer: A bank with separate departments for its business customers and individual customers is using customer-based departmentalisation. Its departmentalisation is based on the type of customer served.
- Geographic: An example of a firm using geographic departmentalisation is an automobile manufacturing company that has different departments for each country in which it sells cars. In this case, departmentalisation is based on the geographic segmentation of organisational units.

3. Managerial Hierarchy
Managerial hierarchy relates to the way in which management is layered. It usually includes three levels – upper or top management, middle management, and supervisory roles. The higher levels of management generally have fewer employees, but more power.
4. Span of Control
Span of control is closely related to managerial hierarchy. At each level of management within a firm, an individual is responsible for a different number of employees. Span of control relates to the number of employees that a manager directly supervises. Span of control is determined by a number of factors, including the type of activity, the location of the workers, a manager's ability to delegate tasks, the amount and nature of communication between the manager and the individuals being supervised, and the skill level and motivation of the individuals being supervised.
5. Centralisation vs. Decentralisation
Centralisation is the degree to which formal authority is centralised within a unit or level of an organisation. Decentralisation is the process of actively shifting authority lower in a firm's hierarchical structure. This effectively gives more decision-making power and responsibility to those in supervisory roles. Centralisation and decentralisation have their benefits and costs. While centralisation provides top-level managers with a better overview of operations and allows for tighter fiscal control, it can result in slower decision making and limit innovation and motivation. Decentralisation, by contrast, can speed up decision making and increase motivation and innovation, but this is done at the expense of a top manager's view of the firm and financial control.

The fundamentals of organisational structure revolve around five factors:
1. the division of labor, 2. departmentalisation, 3. the nature of the managerial hierarchy, 4. the managerial span of control, and 5. the amount of centralisation or decentralisation in the organisation.

Mechanistic vs. Organic Structures
The five structural factors just discussed give rise to numerous organisational possibilities. Mechanistic and organic structures are two possibilities at opposite ends of the organisational spectrum. They give shape to the concept of the factors of organisational structure.



A *mechanistic organisation is characterised by the following structural factors:*
- Degree of work specialisation is high.
- Departmentalisation is rigid.
- Managerial hierarchy has many layers.
- Span of control is narrow.
- Decision making is centralised.
- Chain of command and organisational structure is long.

An *organic organisation is characterised by the following factors:*
- Degree of work specialisation is low.

- Departmentalisation is loose.
- Managerial hierarchy has few layers.
- Span of control is wide.
- Decision making is decentralised.
- Chain of command is short.
- Organisational structure is flat.

Functional vs. Divisional Structures

1. Functional Structure

The organisation is divided into segments based on the functions when managing. This allows the organisation to enhance the efficiencies of these functional groups. Functional structures appear to be successful in large organisations that produce high volumes of products at low costs. The low cost can be achieved by such companies due to the efficiencies within functional groups. However, there can be a disadvantage from an organisational perspective if the communication between the functional groups is not effective.

2. Divisional Structure

These types of organisations divide the functional areas of the organisation to divisions. Each division is equipped with its own resources in order to function independently. There can be many bases to define divisions. Divisions can be defined based on the geographical basis, products/services basis, or any other measurement. As an example, take a company such as General Electrics. It can have microwave division, turbine division, etc., and these divisions have their own marketing teams, finance teams, etc. In that sense, each division can be considered as a micro-company with the main organisation.

3. Matrix Structure

When it comes to a matrix structure, the organisation places its employees based on the function and the product. The matrix structure gives the best of both worlds of functional and divisional structures. In this type of organisation, the company uses teams to complete tasks. The teams are formed based on the functions they belong to (ex: software engineers) and product they are involved in (ex: Project A). This way, there are many teams in this organisation such as software engineers of project A, software engineers of project B, QA engineers of project A, etc.

Every organisation needs a structure in order to operate systematically. The organisational structures can be used by any organisation if the structure fits into the nature and the maturity of the organisation. In most cases, organisations evolve through structures when they progress through and enhance their processes and manpower. One company may start as a pre-bureaucratic company and may evolve up to a matrix organisation.

High-Performance Organisations

The goal of the *high-performance organisation* is to effectively and efficiently utilise intellectual capital. High-performance organisations focus on employee involvement, teamwork, organisational learning, total quality management (TQM), and integrated production techniques.

- *Employee involvement* is accomplished through worker empowerment or participative management.
- *Teamwork* is accomplished though self-directed groups.
- *Organisational learning* involves gathering, communicating, and storing organisational information in order to anticipate changes and challenges and make more informed decisions about the future.
- *TQM* focuses on high quality, continuous improvement, and customer satisfaction.
- *Integrated production techniques* implement flexibility in manufacturing and services and involve job design and information systems to more effectively and efficiently utilise the resources, knowledge, and techniques that a business uses to create goods or services. It stresses the use of just-in-time production and service systems and relies heavily on computers to assist, control, and integrate different organisational functions. Implementing integrated production techniques requires speeding up communication and decision making within the organisational structure.

The process of transforming an organisation into a high-performance organisation begins by actively seeking to understand an organisation's worksite problems and opportunities and its purpose, mission, strategy, and vision. These elements must be tied together into a new mission statement and vision for the firm that is aligned with the organisation's core values.

In order to be successful, this process requires the active involvement of individuals from various levels and groups within the organisation. The broad level of participation will also ensure a greater level of acceptance in the organisation. Once these initial steps have been taken, the factors of employee involvement, teamwork, organisational learning, total quality management, and integrated production techniques can result in organisational, individual, and community benefits. The organisation will be more effective in achieving its goals, job satisfaction, and employee motivation will increase, and the organisation will be better able to contribute to the community as a whole.

Although there are numerous benefits associated with high-performance organisations, establishing and maintaining them is a difficult task. One of the most daunting elements is successfully integrating employee involvement, teamwork, organisational learning, total quality management, and integrated production techniques. These are not separate functions; teamwork must contain elements of employee involvement, organisational learning, and total quality management. This can be especially challenging for managers who, in addition to their regular functions, are asked to implement these changes.

Managers can experience many kinds of resistance. Employees may feel that the changes could put them out of a job. They may be resistant to participating in group decision making or in team-based activities. Managers may also experience obstacles related to cultural differences regarding hierarchy and participation. In light of these challenges, some firms succeed in implementing only some of the elements associated with high-performance organisations.

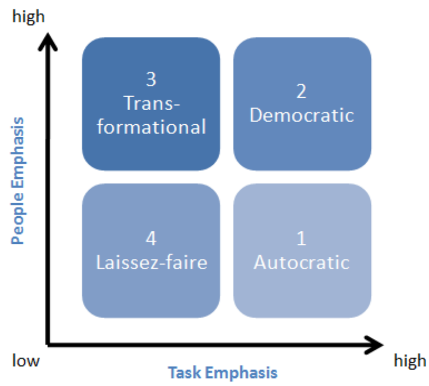
Successfully creating a high-performance organisation requires a high degree of cooperation and a strong level of commitment and acceptance from all employees. It is a challenging and difficult process, but it offers significant rewards throughout the organisation.

Organisational Culture

An organisational culture, also called corporate culture, is the system of beliefs, goals, and values that an organisation possesses. Strong cultures create high levels of employee motivation and loyalty. Corporate culture also provides control and structure to the company.

Leadership Styles and Culture

Individual managers have their own styles of managing, and within organisations, there is often a predominant style of leadership which is deeply rooted in the corporate culture. The four predominant leadership styles – autocratic, democratic, laissez-faire, and transformational – have many variations. We can compare the effectiveness of each of these styles as it affects employee performance.



1: Autocratic Leadership

This style of leadership is directive and controlling. The leader will make all decisions without consulting employees. The autocratic style of leadership limits employee freedom of expression and participation in the decision-making process. It will not serve to create trust between managers and subordinates. Further, creative minds cannot flourish under autocratic leadership. Autocratic leadership may best be used when companies are managing less experienced employees. But managers should not use the autocratic leadership style in operations where employees expect to voice their opinions.

2: Laissez-Faire Leadership

This style of leadership makes employees responsible for most of the decisions that are made. This form requires extensive communication. Laissez-faire leadership may best be used when employees are educated, knowledgeable, and self-motivated. Employees must have the drive and ambition to achieve goals on their own for this style to be most effective. Laissez-faire leadership is not a good idea in situations where employees feel insecure.

3: Democratic Leadership

This style of leadership is cantered on employee participation and involves decision making by consensus. The leader will involve employees in the decision-making process and they will be encouraged to give input and delegate assignments. Democratic leadership often leads to empowerment of employees because it gives them a sense of responsibility for the decisions made by management. Democratic leadership may best be used when working with highly skilled employees. It is most useful for implementing organisational changes and when the leader requires input from knowledgeable employees. One of the down-sides of democratic leadership is that it may lead to endless meetings.

4: Transformational Leadership

Leaders who have a clear vision and are able to articulate it effectively to others often characterise this style of leadership. Transformational leaders look beyond themselves in order to work for the greater good of everyone. This type of leader will bring others into the decision-making process and will allow those around them opportunity to learn and grow as individuals. They seek out different perspectives when trying to solve a problem and are able to instil pride into those who work under them. Transformational leaders spend time coaching their employees and learning from them as well.

As with many categories that describe business concepts, an organisation and its leadership may apply any or all of these leadership styles. For instance, a company may utilise an autocratic leadership style with the lower levels but employ a democratic leadership style with its professional staff in the upper levels.

The most effective leadership style is using a combination of styles. Leaders should know when it is best to be autocratic and when to be democratic.

Successful Culture

Culture creates a sense of order, continuity, and commitment that permeates every aspect of the organisation, from how employees interact to customer perceptions.

Culture is often difficult for an organisation to articulate, but its impact is far-reaching and influences management, process, products, employee attraction and retention, productivity, reputation, and ultimately the bottom line. We will now look at seven important characteristics of successful corporate cultures:

Caring:

This involves employees taking responsibility for their actions, caring about both the customer and the good of the company. It creates high-quality customer service and a positive atmosphere in which to work.

Challenge:

If the CEO of a company states that employees should "think outside the box," but then squashes ideas because of their perceived chance of failure, a contradictory environment is created. In this type of situation, a challenge to conventional thinking and performing causes employees to fear losing their jobs; creative employees will leave and a culture of yes-men will be created.

Risk:

A successful company will be able to manage risk and even turn it into a strategic and profitable advantage. It involves paying attention to reputation and earnings. Employees must anticipate the consequences of their decisions and actions. This type of risk management can add significant shareholder value.

Ethics:

Often ethics can be the glue that holds the culture of an organisation together. An effective leader should create a written ethical code for the organisation. This code of ethics should not only be enforced but continuously reinforced. The employee's ethics should serve as a standard by which performance is evaluated.

Focus:

A leader has done his or her job well if the managers have a sense of continuity if they know where the company or organisation is heading. If managers feel that the direction of the organisation is decided on by which way the wind is blowing that day, goals will not be met. It is important for employees to know where they are going and what they should be achieving, and it is the job of the leader to define this for them. The leader should always know where he or she is going at all times. However, this does not mean that a leader should not be willing to change. In fact, a leader should be an agent for change, because stagnation does not often lead to success. It is important that while being accepting to change a leader is able to align employees with goals.

Trust:

Mutual trust is an important hallmark of effective leadership. Management should trust the leader and the leader should trust management. It is important to note that micromanaging can kill a trusting culture. When employees come to trust one another, it creates a team environment, where everyone is working for the common goals of the organisation.

Merit:

Organisations often meet their goals by rewarding employee performance based on merit. Merit systems create fairness and help to further foster a team environment.

Characteristics of successful corporate cultures include:
caring, challenge, risk, ethics, focus, trust, and merit.

Methods of Control

Managers achieve organisational goals by managing intellectual capital in order to get the most out of organisational resources. An important part of this process is monitoring performance and outcomes. Two common ways that affect organisational behaviour are *output controls* and *process controls*.
Controls relate to setting standards, obtaining measurements of results related to these standards, and taking corrective actions when these standards are not met. Managers must be judicious in their use of controls so as not to overburden the organisation.

Output Controls
Output controls are about setting desired outcomes and allowing managers to decide how these outcomes can best be achieved. Output controls promote management creativity and flexibility. This type of control serves to separate methods from outcomes and subsequently decentralises power by shifting it down the hierarchical structure.

Process Controls
Once effective methods have been determined for solving organisational problems, managers sometimes institutionalise them in order to prevent the problem from recurring. These types of controls are called process controls and are a way of regulating how specific tasks are conducted. Three types of process controls are (1) policies, procedures, and rules; (2) formalisation and standardisation; and (3) total quality management controls.

- *Policies, Procedures, and Rules:* These are often used in the absence of direct management control. Policies are general recommendations for conducting activities, while procedures are a more focused set of guidelines. Rules are the strictest set of limits and establish things that should and should not be done.
- *Formalisation and Standardisation*: Formalisation involves creating a written set of policies, procedures, and rules that simplifies procedures in order to guide decision making and behaviour. Standardisation is the degree to which the actions necessary to accomplish a task are limited. It attempts to make sure that when certain tasks are carried out they are carried out in a similar fashion.
- *Total Quality Management Controls*: The previous methods of process control are based on organisational experience. TQM management controls differ in that they are based on an ongoing statistical analysis of a firm's operations. TQM involves all levels of management and has proved to be the most effective when it is instituted in an organisation that has clearly defined outcomes and is done in conjunction with employee empowerment or participatory management programs.

Case Study: Google

Google

Google is an American multinational technology company that specialises in Internet-related services and products, which include online advertising technologies, search engine, cloud computing, software, and hardware. Today, Google (as part of Alphabet Inc.) is one of the biggest and most valuable technology companies in the world. Human capital and its management have become more important than ever in the 21st century. However, very few are 'good as Google' at managing people. Google has proved that it relies on innovation in every aspect of its business, even HRM.
Google has established an employee-centred culture. Apart from Google's technological capabilities, innovative and efficient HR is the reason that it has acquired as much success and fame. Several things are different about Google's HR approach. The most outstanding thing about the tech giant is its mix of salaries and perks meant to keep its employees motivated and satisfied.
In Google's early days, founders Larry Page and Sergey Brin focused only on two things: creating a better way to find information on the internet, and making Google a great place to work. The starting point for engagement is making employees feel valued. Here are six HR principles of how Google shows its employees that they're valued:

1. Inspire People
Google's approach to employee motivation is its "20 Percent" Rule: Employees spend up to 20% of their time at work every week on projects that inspire them. With their 20% time, Google employees created Gmail, Google News, AdSense, and many other highly profitable products. A perk like 20% time inspires employees because it allows them to focus on things they're passionate about. That inspiration prevents burnout and increases engagement.
2. Support Flexibility
Another way to increase motivation is increasing flexibility in work schedules. Some of Google's more exotic benefits – like bowling alleys, massages, gaming rooms, and pools – aren't necessarily designed for after-work use. Google ITs enjoy those amenities any time they want – even in the middle of the workday. While most Goggle ITs work some version of a fixed week schedule, they can vary it up whenever they need to. According to Prasad Setty, VP of People Operations at Google, one of the company's core tenants is "if you give people freedom, they will amaze you."
3. Promote Diversity
In 2015, Google created "Diversity Core" – a program that allows employees to allocate their time to diversity projects and initiatives. Employees who participate in Diversity Core work on projects that raise the visibility of women in technology jobs and encourage more Hispanics to apply to work at Google, among many others. Google locations in the U.S. started to employ more female employees, more Asians, and more Hispanics over the last years.
4. Listen, Respond, and Adapt
Google collects feedback from its employees. Employees use a tool called Google Moderator—another outcome of 20% time—to ask questions and vote on others' questions they want to be answered. Every Friday, the company holds an all-hands meeting where company leaders respond to the most popular questions of the week. Also, leaders use a charting tool called Google-O-Meter to measure the popularity of different employee suggestions. There are plenty of ways for HR teams to solicit employee feedback: engagement surveys, pulse surveys, anonymous forms, or even just a basic pen-and-paper suggestion box.
5. Encourage Development
Google has created a work environment that fosters continuous learning. The company has special training programs related to presentation skills, content development, management, and leadership. Free classes in foreign language and culture are also provided to Google employees. Learning and development receive special attention at Google whose learning and development team has continued to expand. This team works on leadership programs for developing future leaders for Google. 120 hours of training and development every year is mandatory for all Google employees. This is triple the industry average.
6. *Create a Culture of Empathy*
Google learned during the company's quest to determine the composition of the perfect team (Project Aristotle), that the perfect team had nothing to do with any qualities of the people on that team. The statisticians couldn't find patterns. The company observed high- and low-performing teams to look for consistencies in how the teams interacted and ran meetings. They discovered that members of the highest-performing teams felt safe speaking up and sharing their ideas. Great teams trust and respect each other, providing all members with not only a voice but also the confidence to share that voice with others.

Learning from Google
If you're part of an HR team at a small or medium-sized business that's looking for ways to boost engagement, discover new ideas and exciting opportunities by learning more about the employee engagement practices at Google: there are plenty of ways to support flexibility at your company. Allow employees to work from home when needed, adopt flex schedules, or increase the amount of personal time employees get each year.
When experimenting, Google recommends that you "treat HR interventions like a medical researcher treats a drug trial: have a treatment group and an equivalent control group, hypotheses, a data collection period, an analysis comparing groups, and quantifiable outcomes." It is very important to test the changes first and measure the outcomes. It's a lot of work, but the engagement benefits will make the hard work well worth it in the end.

Recruiting, selecting, hiring, and retaining competent employees as well as implementing the right internal structures and processes have always been essential for every organisation. In this course, you were able to dive into the exciting fields of human resource management and organisational behaviour.

PROJECT MANAGEMENT

BASICS OF PROJECT MANAGEMENT

Introduction

Welcome to the Basics of Project Management!

This course provides an approach to what many consider a complex process: the management of projects. The course is designed to simplify the management processes required to manage a project from start to end.

The need for Project Management (PM) has been driven by businesses that have realised the benefits of organising work around projects and the crucial need to communicate and coordinate work across departments and professions. One of the first major uses of project management was to manage the US space program. The government, military and corporate world have now adopted this practice.

If you lack skills in project management, taking a role in a project team provides an excellent learning opportunity – one that can improve your career profile. Even if you're an experienced manager or team member, a review of the critical elements of project management can inform and improve how effectively you take projects from concept to concrete plan and through to completion.

With that in mind, we'll start with some essential definitions and move towards the project lifecycle and its four phases in more detail. After that, we'll introduce the most important tools and most common modern frameworks every project manager should know.

Managing Projects

The ability to deliver projects on schedule, on budget, and aligned with business goals is key to succeed in today's highly competitive environment. Project managers have an incredibly complex assignment, one that blends organisational skills, an analytical mind, and adept interpersonal abilities.

Definition

What is a Project?

Before we get into project management, we need to define what exactly a "project" is. Sure, you've probably been assigned countless "projects" in school or on the job, but what is the actual definition? A project is defined as "a unique endeavour to produce a set of deliverables within clearly specified time, cost and quality constraints". Projects are different from standard business operational activities as they:

- Are unique in nature. They do not involve repetitive processes. Every project undertaken is different from the last, whereas operational activities often involve undertaking repetitive (identical) processes.
- Have a defined timescale. Projects have a clearly specified start and end date within which the deliverables must be produced to meet a specified customer requirement.
- Have an approved budget. Projects are allocated a level of financial expenditure within which the deliverables must be produced to meet a specified customer requirement.
- Have limited resources. At the start of a project, an agreed amount of labor, equipment, and materials, is allocated to the project.
- Involve an element of risk. Projects entail a level of uncertainty and therefore carry business risk.
- Achieve beneficial change. The purpose of a project, typically, is to improve an organisation through the implementation of business change.

What is Project Management (PM)?

Project management (PM) is the practice of applying knowledge, skills, tools, and techniques to complete a project according to specific requirements. It comes down to identifying the problem, creating a plan to solve the problem, and then executing on that plan until the problem has been solved. That may sound simple, but there is a lot that goes into it at every stage of the process. Project managers will help an organisation to become more efficient and to improve collaboration across and within teams.

Project Management (PM) contains all the skills, tools and management processes required to undertake a project successfully.

PM Triangle

The *Project Management Triangle* (PM Triangle) is used by managers to analyse or understand the difficulties that may arise due to implementing and executing a project.

All projects irrespective of their size will have many constraints. There are three main interdependent constraints for every project: *time, cost* and *scope*. This is also known as the Project Management Triangle.

1. Time

A project's activities can either take a shorter or longer amount of time to complete. Completion of tasks depends on a number of factors such as the number of people working on the project, experience, skills, etc. Time is a crucial factor which is uncontrollable. On the other hand, failure to meet the deadlines in a project can create adverse effects. Most often, the main reason for organisations to fail in terms of time is due to a lack of resources.

2. Cost
It's imperative for both the project manager and the organisation to have an estimated cost when undertaking a project. Budgets will ensure that the project is developed or implemented below a certain cost. Sometimes, project managers have to allocate additional resources in order to meet the deadlines with a penalty of additional project costs.
3. Scope
The scope looks at the outcome of the project undertaken. This consists of a list of deliverables, which need to be addressed by the project team. A successful project manager will know to manage both the scope of the project and any change in scope which impacts time and cost.

What about Quality?
Quality is not one of the three corners of the project management triangle, but it is the ultimate objective of every delivery. Hence, the project management triangle implies quality.

The major takeaway from the Triple Constraint, being that it is a triangle, is that one cannot adjust or alter one side of it without in effect, altering the other sides. So for example, if there is a request for a scope change mid-way through the execution of the project, the other two attributes (cost and time) will be affected in some manner.

How much or how little is dictated by the nature and complexity of the scope change. As an added example, if the schedule appears to be tight and the project manager determines that the scoped requirements cannot be accomplished within the allotted time, both cost and time are affected.

PM Triple Constraint

Example: "Pick Two"
To provide an easy example, we changed the dimensions of the triangle into the options of Fast, Good, and Cheap, and ask you to pick any two. Here, Fast refers to the time required to deliver the product, Good is the quality of the final product, and Cheap refers to the total cost of designing and building the product.

This triangle reflects the fact that the three properties of a project are interrelated, and it is not possible to optimise all three – one will always suffer. In other words, you have three options:

- Design something quickly and to a high standard, but then it will not be cheap.
- Design something quickly and cheaply, but it will not be of high quality.
- Design something with high quality and cheaply, but it will take a relatively long time.

As the project manager, making sure that you stay on top of all the key attributes of the triple constraint will make the likelihood of project success that much higher. So be cognisant of any fluctuations to the key attributes, whether they be unexpected or requested. Never assume that other attributes can be left unchanged if one attribute is known to be changing or fluctuating. As noted earlier, one cannot simply dismiss a change to one without being fully aware of the fact that it will affect the other two.

The Triple Constraint is one of the most known and well-respected mechanisms for signifying the interaction of the key attributes of a project. Being fully aware of its function and implications is an important aspect of the project manager's role and responsibility. The triple constraint is meant to be an asset to the project manager's arsenal and should not be viewed as a hindrance.

The project triangle expresses the "triple constraint" of time, cost, and scope.

PM Roles

Irrespective of how the organisation is structured, there are certain roles and responsibilities that are required in all projects. Different organisations may use different names for these roles but the responsibilities of each one will be the same.

1. The Project Stakeholders

Stakeholders are individuals and organisations that are actively involved in the project, or whose interests may be positively or negatively affected by the execution of the project. They may also exert influence over the project and its deliverables. The project management team must identify the stakeholders, determine their requirements and expectations, and manage their influence in relation to the requirements to ensure a successful project.

2. The Project Sponsor

The project sponsor is responsible for securing the financing and overall resource budget approval and owns the opportunities and risks related to the financial outcome of the project. An effective sponsor will be someone with the authority and personal drive to overcome major obstacles to completing the project. The role of the project sponsor is to approve and fund the project, but not to get involved in day-to-day management.

3. The Project Manager

The project manager is the person assigned by the performing organisation to achieve the project objectives. The project manager has the authority to use cash and other resources up to the limit set in the project charter. A project manager should have experience in the project domain and should also be familiar with the processes that make up project management.

There are typically three different project management roles:
1. Project stakeholders – 2. Project sponsor – 3. Project manager

Project Life cycle

Regardless of what kind of project you're planning, every project goes through the same stages, more or less. The *project lifecycle* is the sequence of phases that a project goes through from the beginning to its end. A project typically has four major phases: Initiation, Planning, Execution, and Closure.

1 – Initiation

The first phase in the project is the Initiation Phase. The goal of this phase is to define the project and develop a business case for it.

Once a business problem or opportunity has been identified, a *Business Case* is prepared. This includes an executive summary, a detailed definition of the challenge or goal and an analysis of the potential solution options available. For each option, the potential costs, benefits, risks, and issues are documented. The Business Case also includes the recommended solution and a generic execution timeline. The Business Case is approved by the Project Sponsor and the required funding is allocated to proceed with the project.

At any stage during (or after) the development of a Business Case, a *Feasibility Study* may be commissioned. The purpose is to assess the likelihood of a particular solution option's achieving the benefits outlined in the Business Case. The Feasibility Study will also investigate whether the forecast costs are reasonable, the solution is achievable, the risks are acceptable and/or any likely issues are avoidable.

At this point, the scope of the project has been defined in detail and the *Project Team* is ready to be appointed. Although a Project Manager can be appointed at any stage of the project, he/she will need to be appointed prior to the establishment of the project team. The Project Manager documents a detailed Job Description for each project role and appoints a human resource to each role based on his/her relevant skills and experience.

Once the team members are 'fully resourced', the *Project Office* is ready to be set-up. The Project Office is the physical environment within which the team will be based. Although it is usual to have one central project office, it is possible to have a 'virtual project office' environment, with project team members in various locations around the world.

Ask yourself the following questions during Initiation:

- What is the problem?
- Will the development of a project solve that problem?
- What are the specific goals of the project?

During the Initiation Phase, you figure out an objective for your project, determine whether the project is feasible, and identify the major deliverables for the project. The phase is essentially about laying out the project's mission.

2 – Planning

The Planning Phase is the second phase of the project life cycle. It involves creating a set of plans to help guide your team through the next phases of the project.

Once the project receives the green light, it needs a solid plan to guide the team, as well as keep them on time and on budget. A well-written *Project Plan* identifies the project timeline, including the phases of the project, the tasks to be performed, and possible constraints. The plan should be agreed and approved by the project team and its key stakeholders.

The Project Plan is the most important document created in the planning phase and typically includes the following detail sub-plans:

- A *Resource Plan* identifies the types of resources (labor, equipment, and materials) and quantities of each resource type needed for the project.
- Similar to the Resource Plan, a *Financial Plan* identifies the quantity of money required for the resources. An expense schedule can help you to compare forecast spending vs. the actual spending throughout the project.
- A *Quality Plan* defines what quality means in terms of this project, lists clear quality targets for each deliverable, and identifies the techniques used to control the actual level of quality.
- The foreseeable project risks are then documented within a *Risk Plan* and a set of actions to be taken formulated to both prevent each risk from occurring and reduce the impact of the risk should it eventuate.
- A *Communications Plan* identifies the types of information to be distributed, the methods of distributing information to stakeholders, the frequency of distribution and responsibilities of each person in the project team for distributing information regularly to stakeholders.

The plans created during this phase will help you to manage time, cost, quality, change, risk, and issues. They will also help you manage staff and external suppliers, to ensure that you deliver the project on time and within budget.

Ask yourself the following questions during Planning:

- Are there measurable objectives or success criteria?
- Do you have a high-level description of the project, requirements and risks?
- Can you adequately schedule and budget high-level milestones?

During the Planning Phase, you break down the larger project into smaller tasks, assign them to team members, and prepare a schedule for the completion of assignments. Make sure to create smaller goals within the larger project!

3 – Execution

The third phase, *Execution Phase*, is usually the longest phase in the project lifecycle and it typically consumes the most energy and the most resources.

This phase involves the execution of each activity and task listed in the Project Plan. In this phase, you will build the physical project deliverables. The Project Manager monitors and controls the activities, resources, and expenditure required to build each deliverable. This constant vigilance helps keep the project moving ahead smoothly. If you developed a good plan in the previous phase, executing the project will be much easier.

There are different visual tools that you can apply to see which deliverables have been completed to ensure that your project remains on track. We will introduce the most important ones in the next chapters.

Ask yourself the following questions during Execution:

- Is the project on budget and on time?
- Can resource planning be optimised?
- Are there major roadblocks that require change management?

The Execution Phase turns your plan into action. The project manager's job in this phase is to keep work on track, monitor the activities, and make sure the work is done according to the original plan.

4 – Closure

The *Closure Phase* is the last phase of the project life cycle. In this phase, you will formally close your project and determine the success of the project.

When you have worked long and hard on a project and it's finally completed, it's hard to find time to really close it down properly. However, it is definitely in your best interest to have a closure procedure so that you cover every base and can safely archive it. Project Closure involves undertaking a series of activities to wind up the project, including:

- Analysing whether the project's goals were met (tasks completed, on time and on budget) and the initial problem solved using a prepared checklist.
- Evaluating how team members performed, including whether they met their goals along with timeliness and quality of work.
- Conduct a final analysis of the project, taking into account lessons learned for similar projects in the future.
- Communicating closure to all stakeholders and interested parties.

A *Project Closure Report*, created by the Project Manager, is the final document that assesses the success of the project and also catalogs project deliverables and officially ends the project. The primary objective of a project closure report is to provide a complete picture of the successes and failures of a project.
Ask yourself the following questions during Closure:

- Are the project's completion criteria met?
- Have the stakeholder received the project closure report?
- Have all project artefacts been collected and archived?

Some methodologies also include a fifth phase (labeled controlling or monitoring) but for our purposes, this phase is covered under the execution and closure phases.
During the Closure Phase, you will formally close your project and determine the success of the project.

Book Example

Now that we know the project lifecycle and the four major project phases, it is time to take a look at a real-life example to understand the concept better. We will keep it simple and assume that you and your team intend to create, develop and publish a new textbook.
1. Project Initiation
In the initiation phase, we need to get a rough idea of how long it will take to make, how much it will cost, and the effect it will have. If the CEO of the publishing company decides that the value is worth the perceived difficulty, it's time to move onto planning.
2. Project Planning
The planning stage would involve meeting with the marketing team and stamping out a timeframe for each chapter of the book to be completed. Once the topic has been set and assessed (for the difficulty of writing), these dates will become more solid.
The person responsible for writing each chapter will be assigned, along with the task of designing and creating the book itself. Furthermore, risks such as hidden topic depth or difficulty in securing a designer for the book would be assessed.
3. Project Execution
The execution stage would involve creating the content for each chapter and carving out regular meetings during which your team's progress and problems will be relayed. Everyone should know what they are working on, why they are working on it, when it should be completed by, and what everyone else is responsible for.
For our book, let's say that you've set out a two-month deadline for the final product, and you meet twice a week with your marketing team to check on their progress. If problems arise, such as a chapter being more complex than originally thought or team members having to take time off, you may have to bring in someone who wasn't already working on the project, or shift the responsibilities of the current workforce on the project to better suit the new situation.
4. Project Closure
The project closing step would be after the book's public launch. Once complete, the benefits would be tracked (eg, increased conversion rates), any expenses on items such as the design of the book would be totalled, and contracts with freelancers terminated.

Whether you're working on a small project with modest business goals or a large, multi-departmental initiative, understanding the project management life cycle is essential. Every project has essential milestones at the beginning, in the middle, and at the end, following a path from initiation to completion to evaluation. Working with an understanding of the project management cycle helps you keep your project organised and on track from ideation to completion.

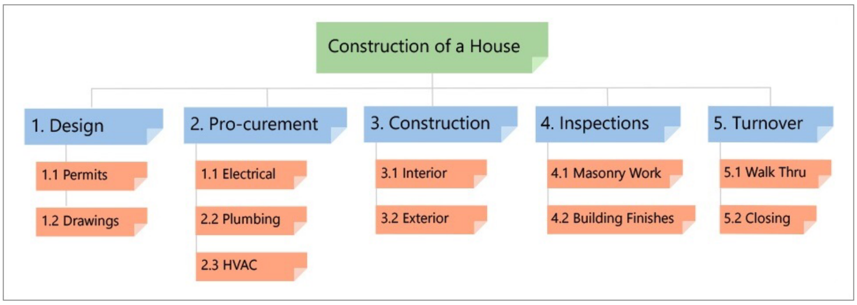
Essential Tools

Selecting the right approach to manage a project is essential for the successful delivery of projects. There are many project management techniques you can choose from. In this chapter, we will discuss the top four tools that project managers should know in order to steer their projects to success.

Work Breakdown Structure

Work Breakdown Structure (WBS) is a project management tool to visualise the scope of work by breaking a project into individual components that can be effectively scheduled. Such a structure defines tasks that can be completed independently of other tasks.

The WBS is a tree-style structure with the overall task on the top; followed by project sections and further into individual tasks. The components may be explained in text or in boxes. The following picture shows a WBS *example for constructing a house*:



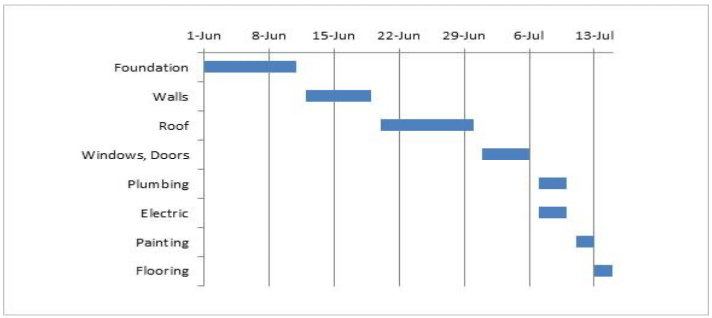
The WBS enables a team to estimate time and/or cost for each task, then tally the numbers to arrive at an overall project estimation. The chart resembles the layout of a family tree, with the project at the root and splitting branches from it into smaller and smaller components. As such, it is neither useful as a timeline to see the interdependencies of tasks, nor for scheduling overlapping tasks.

Gantt Chart

A *Gantt Chart* is one of the most popular ways of showing activities (tasks or events) displayed against time. The bar chart is named after its inventor Henry Gantt, who designed the first chart in 1917.

On the left of the chart is a list of the activities and along the top is a suitable time scale. Each activity is represented by a bar; the position and length of the bar reflect the start date, duration and end date of the activity.

The following picture shows a Gantt Chart *example for building a house*. Note that two activities (the plumbing and electrical work) can be executed simultaneously.



A Gantt Chart allows you to see at a glance:

- What the various activities are
- When each activity begins and ends
- How long each activity is scheduled to last
- Where activities overlap with other activities, and by how much
- The start and end date of the whole project

A Gantt Chart shows what has to be done (activities) and when (schedule).

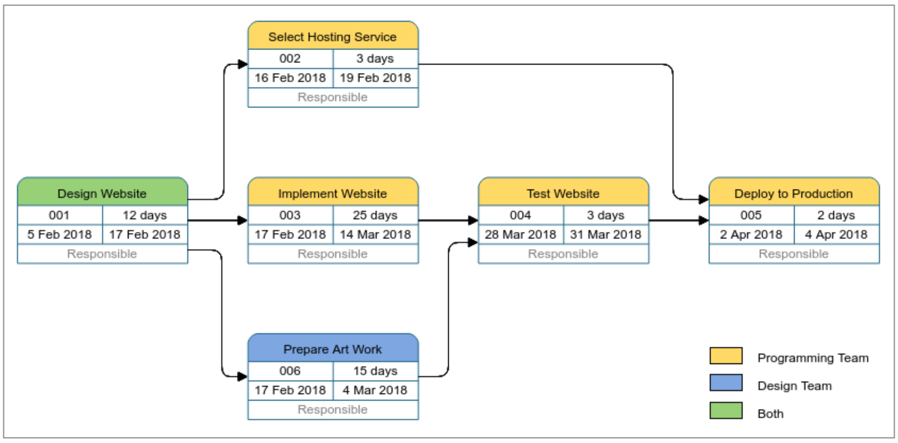
PERT Chart

The acronym *PERT* stands for Program Evaluation Review Technique. It’s a primary project management tool used to schedule, organise, and coordinate tasks within a project. The PERT Chart can show task division, time allocation, and starting and ending dates.

Unlike the Gantt Chart which uses bars to represent tasks, the PERT Chart displays information as a network model that uses boxes to represent tasks and arrows to present dependencies between tasks.

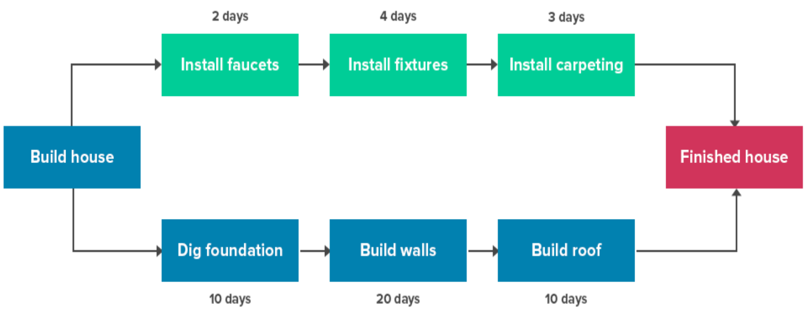
Here, you can see a PERT chart *example for building a website*:

In this example, different legends make it possible to categorise tasks effectively. The tasks are categorised based on their owners, which include the programming team (yellow), the design team (blue), or both (green).
The layout of a PERT Chart makes it easier to see the relationships between different activities. On the downside, however, this chart can become quite confusing with complex projects that feature many dependencies and tasks.

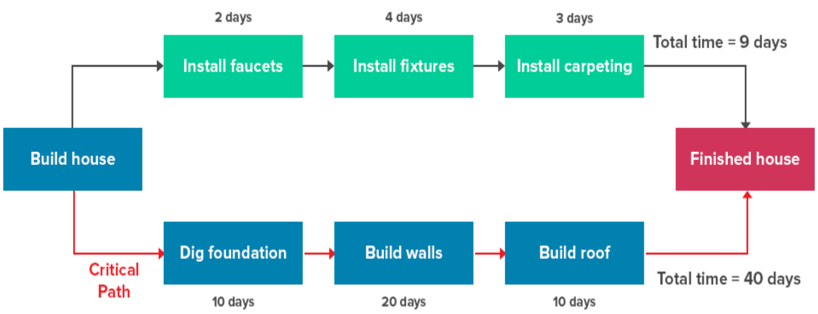


Critical Path Method

Critical Path Model (CPM) is another important project management technique that requires you to construct a project model that includes a list of all tasks, the duration to complete the tasks, dependencies between tasks, and deliverables for the entire project.
With this information, you can easily calculate the longest path to completion of tasks. The *Critical Path* is the longest path of scheduled activities that must be met in order to execute a project.
For example, if you're building a house, you would have several task sequences as follows:



Each task takes a different amount of time and resources. It takes more time to build walls and lay the roof than to install faucets and fixtures.
If you had to figure out the project's 'Critical Path', you would look at the sequence that takes the most amount of time, like this:



The total time taken to complete the sequence along this critical path would give you an idea of the project's *minimum duration*. In our example, the critical path takes 40 days.
You might undertake several task sequences simultaneously, but if there are any delays in the critical path sequence, your project will suffer delays as well.
The CPM calculates the longest path of planned activities to the end of the project and the earliest and latest that each activity can start and finish without increasing the overall project duration. This process determines which activities are "critical" (on the longest path, coloured blue) and which have "total float" (can be delayed without making the project longer, coloured green).

New Frameworks

Project management has evolved significantly in recent years, and there are plenty of project management frameworks to help facilitate these changes. In this chapter, we will explore the most important modern project management methodologies: Agile, Scrum and Kanban.

Agile

What is the easiest way to plan out a project? Sequence the tasks that lead to a final deliverable and work on them one after another. This is the *waterfall methodology*. Waterfall project management originated in construction industries where one phase must be completed before another begins. The waterfall methodology excels in predictability, but lacks in flexibility.
In early 2001, a group of 17 people met to discuss the future of software development in Snowbird, Utah (US). The group's members shared frustration about the current state of affairs. The problem, they agreed, was that companies were so focused on excessively planning and documenting their software development cycles that they lost sight of what really mattered – pleasing their customers.
The famous *Agile Manifesto* emerged from this group meeting at just 68 words:

We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:

- *Individuals and interactions* over processes and tools.
- *Working software* over comprehensive documentation.
- *Customer collaboration* over contract negotiation.
- *Responding to change* over following a plan.

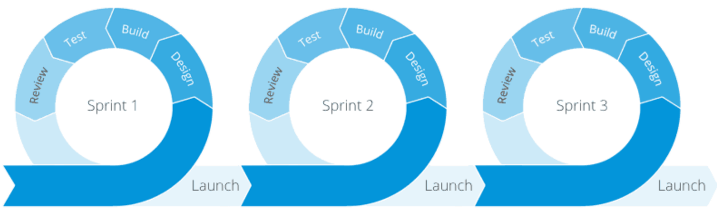
That is, while there is value in the items on the right, we value the items on the left more.
– Agile Manifesto 2001
The short document went on to change software development and project management forever. In the two decades since its creation, these words have been embraced (in varying degrees) by countless individuals, teams, and companies.
Agile development is based on an incremental, iterative approach. Instead of in-depth planning at the beginning of the project, Agile methodologies are open to changing requirements over time and encourages constant feedback from the end-users.
In Agile methodologies, leadership encourages teamwork, accountability, and face-to-face communication. Project objectives are made clear by the customer (internal or external) while the final deliverable can change as the project progresses. The project team works in iterative cycles, always evaluating results at the end.

Depending on the results of these evaluations, the final deliverable may be modified in order to better answer the customer's needs. Continuous collaboration and communication are key, both within the project team members and with project stakeholders.

Advantages of Agile	Disadvantages of Agile
▪*Change is embraced*: With shorter planning cycles, it's easy to accommodate and accept changes at any time during the project. ▪*Continuous improvement*: Agile projects encourage feedback from users, customers and team members throughout the whole project. ▪*Faster, high-quality delivery*: Breaking down the project into iterations allows the team to focus on high-quality development, testing, and collaboration. ▪*Strong team interaction:* Agile highlights the importance of frequent communication and face-to-face interactions. Teams work together and people are able to take responsibility and own parts of the projects.	▪*Planning can be less concrete:* It can sometimes be hard to pin down a solid delivery date. Re-prioritising tasks and adding new sprints may delay the whole project. ▪*Team must be knowledgeable:* Agile teams are usually small, so team members must be highly skilled in a variety of areas. They also must understand and feel comfortable with the chosen Agile methodology. ▪*Final product can be very different*: Because Agile is so flexible, new iterations may be added based on evolving customer feedback, which can lead to a very different final deliverable. The final product can look much different than what was initially intended.

Scrum

Scrum is a subset of Agile and one of the most popular process frameworks for implementing Agile. It is an iterative development model used to manage complex software and product development. Fixed-length iterations, called sprints lasting two weeks long, allow the team to ship software on a regular cadence. At the end of each sprint, stakeholders and team members meet to plan the next steps.



Every Scrum project includes certain roles, responsibilities, ceremonies, tools, and artefacts that never change. Here we highlight the most important ones:

- *Scrum Master*: Often considered the coach for the team, the Scrum Master helps the team do their best possible work. A key difference between a Scrum Master and a traditional project manager is that a Scrum Master does not give step-by-step directions to the team.
- *Daily Scrum meetings*: The Daily Scrum is a 15-minute stand-up meeting where each team member talks about their goals and any issues that have come up.
- *Sprint review meeting:* At the end of each sprint, the team presents the work they have completed at a sprint review meeting. This meeting should feature a live demonstration, not a report or a PowerPoint presentation.
- *Scrum board*: The Scrum task board can have different forms – it traditionally involves index cards, Post-It notes, or a whiteboard. The Scrum board is usually divided into three categories: to do, work in progress, and done.
- *User stories*: A user story describes a software feature from the customer's perspective. It includes the type of user, what they want, and why they want it.

Working with Scrum often means changing the team's habits. They need to take more responsibility and boost the speed of delivery. This level of commitment acts as a change agent; as the teams commit to sprint goals, they are more and more motivated to get better and faster to deliver a quality product. A good place to start with Scrum is to talk about the roles and their responsibilities.

Advantages of Scrum	Disadvantages of Scrum
▪*More transparency and project visibility*:	▪*Risk of scope creep*:

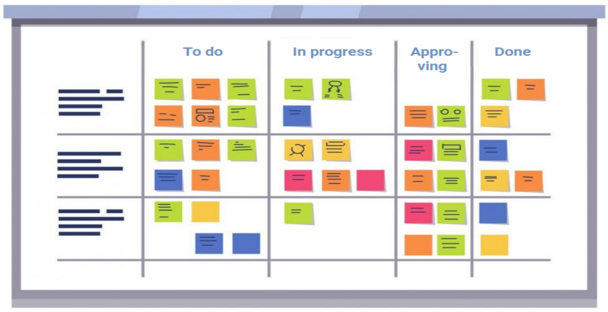
With daily stand-up meetings, the whole team knows who is doing what, eliminating many misunderstandings and confusion. ▪*Increased team accountability:* The Scrum Master and the teamwork together and help each other, improving collaboration and empowering each team member to be independent. ▪*Easy to accommodate changes:* With short sprints and constant feedback, it's easier to cope with changes. For example, if the team discovers a new user story during one sprint, they can easily add that feature to the next sprint.	"Scope creep" refers to uncontrolled growth in a project's scope, since stakeholders may be tempted to keep requesting additional functionality. ▪*Team requires experience and commitment*: With defined roles and responsibilities, the team needs to be familiar with Scrum principles and needs to commit to the daily Scrum meetings. ▪*Poorly defined tasks can lead to inaccuracies*: Project costs and timelines won't be accurate if tasks are not well defined. If the initial goals are unclear, planning becomes difficult and sprints can take more time than originally estimated.

Kanban

Kanban is another framework for implementing agile but is based on a team's capacity to do work. It originated from the factories of Toyota during the 1940s and was originally a visual system of cards ("kanban" in Japanese) used by a department to signal that their team has more capacity to produce.

Kanban strives to better coordinate and balance work with the capacity and bandwidth among workers. The framework does not require a certain setup or procedure. Therefore, you could overlay Kanban on top of other existing workflows.

The *Kanban board* is the central tool to implement the Kanban method for projects. A Kanban board – whether it is physical or digital – is split into categories of work to do, work doing, and work done. Each task is recorded on a Kanban card, which moves from column to column on the board as it moves through the team's process.



A visual representation of your work allows you to understand the big picture and see how the flow of work progresses. The Kanban board keeps team members on the same page, but it also helps teams identify where processes need improvement. It makes problems like bottlenecks highly visible, allowing the team to make corrections as needed.

Traditionally, this tool has been a physical board, with magnets or sticky notes on a whiteboard to represent work items. However, in recent years, modern project management software tools have created online Kanban boards that can display even more complex tasks and add more columns to better visualise the processes.

The flow of work throughout the Kanban board should be monitored and improved upon. Ideally, you want a fast, smooth flow, which shows that the team is creating value quickly. The team should analyse problems in the flow then implement changes.

The Kanban method encourages small, continuous changes that stick. Once the Kanban system is in place, the team will be able to identify and understand issues and suggest improvements. Teams measure their effectiveness by tracking flow, measuring cycle time, and increasing the quality of work.

Advantages of Kanban	*Disadvantages of Kanban*
▪*Increases flexibility*: Kanban is an evolving, fluid model. There are no set phase durations and priorities are reevaluated as new information comes in. ▪*Reduces waste*: Kanban revolves around reducing waste, ensuring that teams don't spend time doing work that isn't needed, or doing the wrong kind of work. ▪*Easy to understand*:	▪*Outdated board can lead to issues:* The team must be committed to keeping the Kanban board up to date, otherwise, they'll be working off inaccurate information. ▪*Teams can overcomplicate the board:* The Kanban board should remain clear and easy to read, however, some team members may tend to overload the board. ▪*Lack of timing*:

The visual nature of Kanban helps to make it incredibly intuitive and easy to learn. The team doesn't need to learn a completely new methodology, and Kanban can be easily implemented on top of other systems.	The columns on the Kanban board are only marked by phase (to do, in progress, complete), there are no timeframes associated with each phase, so you really don't know how long the to-do phase could last.

Finally, which project management methodology should you use? Unsurprisingly, the answer to this question depends on your unique team and its aims. Waterfall works best for projects completed in a linear workflow. Agile focuses on adaptive, simultaneous workflows since the method breaks projects into smaller, iterative periods. Scrum is concerned with getting more work done faster whereas Kanban is primarily concerned with process improvements.

Conclusion

Project management is the practice of initiating, planning, executing, and closing the work of a team to achieve specific goals and meet specific success criteria at the specified time. It can be somewhat complicated, and to do it well requires delving into what needs to be done from the very beginning.

Although the practice of project management has been around for centuries, scholars and project management professionals are still studying how to make project management better. The value of face-to-face interaction does not deteriorate, even with the deployment of virtual project management teams. Projects require leaders who are trained in both business and technology and have teams with qualified project management professionals when possible.

In today's business world managing projects has become essential. We hope that this course provided a short and practical project management introduction.

In the last chapters, you learned the basics about:

- the different phases of project initiation, planning, execution, and closure
- essential tools like the Gantt Chart, PERT Chart and Critical Path Method
- Agile Project Management as well as Scrum and Kanban methods

RISK MANAGEMENT

Introduction

Welcome to Risk Management!

Everything in business involves some level of risk. No matter the activity, there is an element of risk that must be analysed and weighed against the potential rewards.

The best organisations are those who can identify the right risks to take on, and the ones to avoid. Dealing with too little risk often means that the organisation is being too conservative and is limiting their potential for growth – too much risk, however, and the company is likely to crash and burn at some point along the way.

As projects are a regular part of business, it only stands to reason that they incur a certain level of risk as well. Managing project risk deals with the activities involved in identifying potential risks, assessing and analysing them, finally monitoring them throughout the life of a project. Every project will have a unique set of risks based on the specific details of the work being done. It is often up to the project manager to outline these risks ahead of time and include them as part of the overall plan of the project.

Dealing with the risk inside of a project isn't much different from dealing with any other business risks that you encounter. While it probably isn't possible to foresee all potential risks that could come down the line, planning for as many of them as you can will give the project the greatest chance at success.

Four risk management steps are essential:

- *Identify Risks*: Before a project even gets started, it is important that any potential risks are identified and a strategy for managing such risks developed. One of the best ways to do this is by learning from past experience – either your own experiences or those of the organisation as a whole.
- *Analyse & Evaluate Risks*: With a list in place that highlights which risks you will be taking on during the project, you can start looking closely at each of them and deciding what kind of threat they actually are. Is the risk something that would do long-term damage to the organisation if it came to pass?
- *Treat Risks:* No one likes to have to deal with risk, but it is an unavoidable part of doing business. The goal is to make the level of risk acceptable to the organisation and to take steps that minimise the element of risk as much as possible.
- *Monitor & Review Risks:* Initial risk management plans will never be perfect. Risk analysis results and management plans should be updated periodically.

Threats and Opportunities

A risk is a future event caused by external or internal vulnerabilities that may or may not happen, but if it does occur it will have an *effect on project scope, schedule, budget, or quality.* It may have one or more causes and, if it occurs, it may have one or more impacts.

All project activities carry some element of risk, which are uncertainties about them that could affect the project for better or worse. It is important to understand the difference between business risks and project risks. Business risks are more general and relate to the organisation, whereas project risks relate specifically to the project objectives.

Risks include both *threats and opportunities* that project managers must assess. Opportunities do have uncertainty associated with them, but they should be grasped, and action should be taken to ensure that they are realised.

Risks include 1. threats (negative impacts) and 2. opportunities (positive impacts).

Threats have potentially negative impacts that the project management team should strive to mitigate. Organisations and stakeholders are willing to accept varying degrees of risk. This is called *risk tolerance*. Risks that are threats to the project may be accepted if they are in balance with the rewards that may be gained from taking them. All organisations have a 'risk tolerance' that is affected by their legal status and their culture. For instance, a pension fund is likely to be more risk-averse than a small start-up company. In all cases, attitudes to risk are driven by perception, tolerances, and other biases, which should be made explicit wherever possible.

To be successful, the organisation should be committed to addressing risk management proactively and consistently throughout the project. A conscious choice must be made at all levels to actively identify and pursue effective risk management during the life of the project. Communication about risk and its handling should be open and honest.

Identify Risks

Even if the type of project you are working on presently is different than anything you have done before, it is likely the organisation has already done something remotely similar. The purpose of this step is to identify what could go wrong and what is the consequence of it occurring.

Identification Methods

Risks can be identified directly by experts with relevant experience of similar projects or business areas. These should be identified by the project manager and invited to consider all aspects of the project and suggest possible risks based on their previous experience and areas of expertise, and there are several techniques that can also be used to identify project risk.

Documentation Reviews

These are structured reviews of all project documentation up to this point in time including plans, assumptions, previous project files, contracts, and other information. The quality of the plans, as well as consistency between those plans and the project requirements and assumptions, can be indicators of risk in the project.

Assumptions Analysis

Every identified project risk is based on a set of hypotheses, scenarios, or assumptions. Assumptions analysis explores the validity of assumptions as they apply to the project. It identifies risks to the project from the inaccuracy, inconsistency or incompleteness of assumptions.

SWOT Analysis

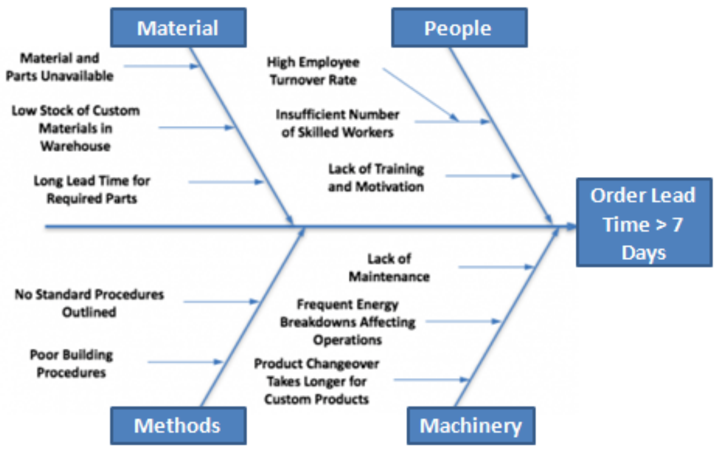
This technique is intended to specify the objectives of the business venture or project and identify the internal and external factors that are favourable and unfavourable to achieving those objectives. Strengths and weakness are frequently internally-related, while opportunities and threats commonly focus on the external environment of the company or project. The name is an acronym for the four parameters the technique examines:

Fishbone Diagrams

Risk diagramming techniques include cause and effect diagrams, also known as Ishikawa diagrams or fishbone diagrams, and are useful for identifying causes of risks. Flow charts can also be used to show how various elements of a system interrelate, and the mechanism of causation, as can influence diagrams, which show causal influences, time ordering of events, and other relationships among variables and outcomes.

Identified risks should be documented in the *risk register*, next line consists of the list of all the identified risks, their root causes, categories, and responses. This information may be used to update the risk breakdown structure. Because of risk is an ongoing activity, the risk register will be updated continuously throughout the life of the project and it is a key tool to aid in the management of risks within a project. The risk register ultimately contains the outcomes of the other risk management processes as they are conducted, resulting in an increase in the level and type of information contained in the risk register over time.

For example, the following fishbone diagram shows which factors lead to the risk of delayed orders:



Risk Register

Project risks should be documented in the *risk register,* a list of all of the identified risks, their root causes, categories, and responses. Because the assessment of risk is an ongoing activity, the risk register will be updated continuously throughout the life of the project.

All project team members should be encouraged to identify risks and this is an iterative process because new risks may become known as the project progresses. The process of identification should involve the project team so they can develop and maintain a sense of ownership and responsibility for the risks and associated risk response actions.

Here you can see how individual entries in a risk register could look like. Note that mechanisms to control the risks are a vital part of this register.

The risk plan defines the level of risk that is considered tolerable for the project, how all this will be managed, who will be responsible for them, what time and cost are needed for each, and how risk will be communicated.

Risk scenario	Likelihood	Consequence	Risk rating	Risk controls	Treated risk rating
Worker struck by moving plant or machinery	Possible	Major	High	• Vehicle movement alarms for all vehicles • Daily work safety plans for movement deconfliction • Driver training program • Trained first aiders on site	Medium
Worker trips on STF hazards in the workplace	Possible	Moderate	Medium	• Housekeeping practices for construction materials, waste and debris • Safety footwear for all workers • Trained first aiders on site	Low
Worker exposed to ultraviolet radiation	Likely	Moderate	High	• Weather assessment during summer months • Wide-brim hats, eye protection and sunscreen for workers	Low

Risk Breakdown Structure

A Risk Breakdown Structure (RBS) is an organised way of *categorising the risks* of a project. It is, in fact, much simpler than the unwieldy name suggests. It's nothing more than a table with risk categories broken down into increasingly specific subject matter.
Instead of going through a big spreadsheet with hundreds of verbose entries about risks, RBS provides a pictorial representation of related items through tree structure as an excellent way of getting the whole picture in a single place for effective communication, management and governance.

Organisations have common list of risk categories or even template with sample risks for each category and type of project. This can be used as a starting point for risk identification. By using the RBS, you can also identify risk dependencies, understand the risk exposure to a project, and determine the root cause of risks. That's why RBS is such a useful tool for project managers.

For example, a risk breakdown structure for a software project might have the following categories:

Level 1	Level 2	Level 3
All Project Risks	Business Risk	• Competitors • Suppliers • Cash flow
	Technical Risk	• Hardware • Software • Network
	Organizational Risk	• Executive Support • User Support • Team Support
	Project Management Risk	• Estimates • Communication • Resources

Analyse & Evaluate Risks

The risk analysis process determines each risk from the risk register in terms of its probability and impact on the project if it were to occur. There are various qualitative and quantitative techniques that can be used to analyse risks. Here, we will introduce the four most important tools:

Risk Estimation

Once you've identified the threats you're facing, you need to calculate both the likelihood of these threats being realised and their possible impact. One way of doing so is to make your best estimate of the *probability of the* *event* occurring, and then multiplying it by the amount it will cost you to set things right (*risk of the event*). This gives you the *risk value*:

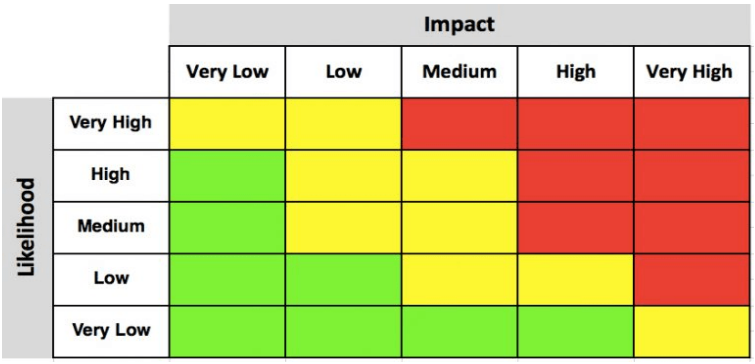
As a simple example, imagine that you've identified a risk that your rent may increase substantially:
You think that there's an 80 percent chance of this happening within the next year because your landlord has recently increased rents for other businesses. If this happens, it will cost your business an extra $500,000 over the next year. So the risk value of the rent increase is:
0.80 (Probability of Event) x $500,000 (Cost of Event) = $400,000 (Risk Value)
You can also use a *Risk Matrix* (next page) to assess risk. This will help you to identify which risks you need to focus on.

Risk Matrix

The Risk Matrix – also called "Probability-Impact Matrix" (*PIM*) – is one of the most important tools for risk evaluation and provides a useful framework that helps you decide which risks need your attention.
The Risk Matrix is based on the principle that a risk has two primary dimensions:

- *Probability (Likelihood)* – A risk is an event that "may" occur. The probability of it occurring can range anywhere from just above 0 percent to just below 100 percent. (Note: It can't be exactly 100 percent, because then it would be a certainty, not a risk. And it can't be exactly 0 percent, or it wouldn't be a risk.)
- *Impact* – A risk, by its very nature, always has a negative impact. However, the size of the impact varies in terms of cost and impact on health, human life, or some other critical factor.

The chart allows you to rate potential risks on these two dimensions. The probability that a risk will occur is represented on one axis of the chart – and the impact of the risk on the other.



The corners of the chart have these characteristics:

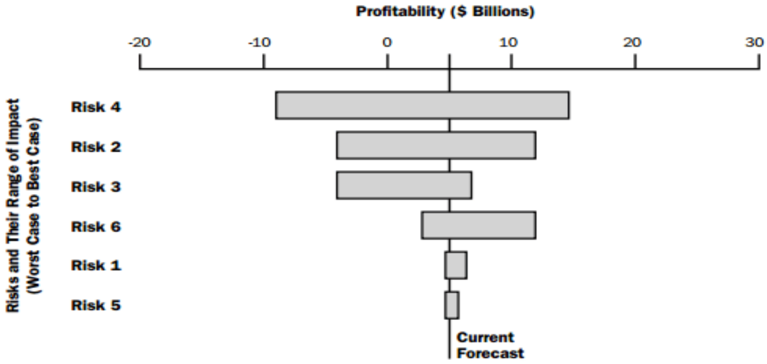
- *Low impact/low probability* – Risks in the bottom left corner are low level, and you can often ignore them.
- *Low impact/high probability* – Risks in the top left corner are of moderate importance – if these things happen, you can cope with them and move on. However, you should try to reduce the likelihood that they'll occur.
- *High impact/low probability* – Risks in the bottom right corner are of high importance if they do occur, but they're very unlikely to happen. For these, however, you should do what you can to reduce the impact they'll have if they do occur, and you should have plans in place just in case they do.
- *High impact/high probability* – Risks towards the top right corner are of critical importance. These are your top priorities and are risks that you must pay close attention to.

To successfully implement a project, you must identify and focus your attention on middle and high-priority risks – otherwise, you risk spreading your efforts too thinly, and you'll waste resources on unnecessary risk management.

Sensitivity Analysis

You can use a *Sensitivity Analysis* to see which risk variables have the biggest impact on a project objective. You can develop what-if models or simulations to see the impact of a risk on either the budget or the schedule. Many times, the outcomes are graphed in a tornado diagram.
Tornado Diagrams got their names from their shape. These diagrams portray the project sensitivity to different risk factors. These risks are ranked vertically and represented by a horizontal bar showing plus or minus cost

impacts. The risk variable with the highest impact will be listed at the top of the chart followed by other variables in descending impact order.



A tornado diagram is applicable to a wide range of project domains – Financial, Constructions, Software, Sales, Services, etc. A tornado diagram can also be used for analysing sensitivity in other project constraint objectives (cost, time, quality, and risk).
A tornado diagram has the following characteristics:

- The longer the bar, the more sensitive the project objective is to the risk.
- The risks are presented in descending order, with the largest impact on the top and the least impact on the bottom.
- It allows the team to focus on those risks with the greatest impact on a project objective.

Monte Carlo Analysis

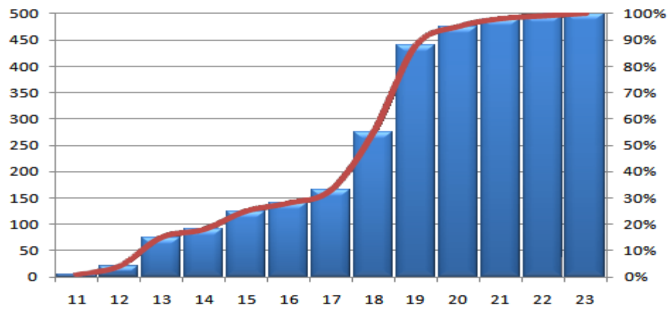
While managing a project, you would have faced numerous situations where you have a list of potential risks for the project, but you have no clue of their possible impact on the project. To solve this problem, you can consider the *worst-case scenario* by summing up the maximum expected values for all the variables. Similarly, you can calculate the *best-case scenario*. You can now use the Monte Carlo analysis and run simulations to generate the *most-likely scenario* for the event. In most situations, you will come across a bell-shaped normal distribution pattern for the possible outcomes.
Let us try to understand this with the help of an example. Suppose you are managing a project involving creation of a webpage. The creation of the webpage comprises of three tasks: writing content, creating graphics, and integrating the multimedia elements. Based on prior experience or other expert knowledge, you determine the best case, most-likely, and worst-case estimates for each of these activities as given below:

Tasks	Best-case estimate	Most likely estimate	Worst-case estimate
Writing content	4 days	6 days	8 days
Creating graphics	5 days	7 days	9 days
Multimedia integration	2 days	4 days	6 days
Total duration	11 days	17 days	23 days

Total Project Duration	Number of times the simulation result was less than or equal to the Total Project Duration	Percentage of simulation runs where the result was less than or equal to the Total Project Duration
11	5	1%
12	20	4%
13	75	15%
14	90	18%
15	125	25%
16	140	28%
17	165	33%
18	275	55%
19	440	88%
20	475	95%
21	490	98%
22	495	99%
23	500	100%

The Monte Carlo simulation randomly selects the input values for the different tasks to generate the possible outcomes. Let us assume that the simulation is run 500 times. From the above table, we can see that the project can be completed anywhere between 11 to 23 days. When the Monte Carlo simulation runs are performed, we can analyse the percentage of times each duration outcome between 11 and 23 is obtained. The following table depicts the outcome of a possible Monte Carlo simulation:

This can be shown graphically in the following manner:



What the above table and chart suggest is, for example, that the likelihood of completing the project in 17 days or less is 33%. Similarly, the likelihood of completing the project in 19 days or less is 88%, etc. Note the importance of verifying the possibility of completing the project in 17 days, as this, according to the Most Likely estimates, was the time you would expect the project to take. Given the above analysis, it looks much more likely that the project will end up taking anywhere between 19 – 20 days.

Treat Risks

Every risk needs to be eliminated or contained as soon as possible. It is important that responses are appropriate to the significance of the risk, cost effective in meeting the challenge, realistic within the project context, agreed upon by all parties involved, and owned by a responsible person.

Dealing with Threats

There are four possible strategies for dealing with risks that may have *negative impacts* on the project:

1. Avoid

This involves taking action to either reduce the probability of the risk and/or its impact to zero. In either case, this response enables the risk to be circumvented entirely. For example, using a certain supplier might carry the risk of them going out of business during the course of the project. This risk could be avoided by using a supplier who was bigger, better established and more financially secure.

2. Transfer

This involves transferring the risk to a third party so that they are responsible for its management and impact. It does not eliminate the risk it simply transfers the liability to someone else. This can be done by either taking out insurance (the insurance company is now liable) or having the work done under a fixed-price contract (the contractor is now liable). Risk transference nearly always involves payment of a risk premium to the party taking on the risk and may introduce new risks. For example, an insurance company may contest the claim or a contractor might dispute the terms and conditions of the contract if they are having problems delivering.

3. Mitigate

Taking early action to reduce the probability and/or impact of a risk occurring is often more effective than trying to repair the damage after it has occurred. Adopting less complex processes, conducting more tests, or choosing a more stable supplier are examples of mitigation actions.

- *Preventative action* involves aiming to prevent a high-risk situation from happening. It includes health and safety training, firewall protection on corporate servers, and cross-training your team.
- *Corrective action* involves identifying the points in a process where something could go wrong, and then putting steps in place to fix the problems promptly if they occur. Detective actions include double-checking finance reports, conducting safety testing before a product is released, or installing sensors to detect product defects.

4. Accept

The most common acceptance strategy is to establish a contingency reserve, including amounts of time, money, or resources to handle the risks. It is usually chosen either because the risk is low in terms of impact or probability, or the cost and effort of taking a different action are out of proportion to the risk itself.

Avoiding, transferring, migrating, and ignoring can be effective strategies to deal with risks that lead to negative impacts.

Dealing with Opportunities

There are four possible strategies for dealing with risks that may have **positive impacts** on the project:
1. Exploit
Examples of directly exploiting responses include assigning an organisation's most talented resources to the project to reduce the time to completion or to provide lower cost than originally planned.
2. Share
Sharing a positive risk involves allocating some or all of the ownership of the opportunity to a third party who is best able to capture the opportunity for the benefit of the project. Examples of sharing actions include forming risk-sharing: Partnerships, Teams, Special-purpose companies, or Joint ventures (JVs). These can be established with the express purpose of taking advantage of the opportunity so that all parties gain from their actions.
3. Enhance
Examples of enhancing opportunities include adding more resources to an activity to finish early.
4. Accept
Accepting an opportunity is all about being willed to take advantage of it if it comes along, but not actively pursuing it.

Exploiting, sharing, enhancing, and accepting can be effective strategies to deal with risk and often lead to positive impacts.

Monitor & Review Risks

Not all risks can be eliminated – some risks are always present. Risk management is an ongoing process of identifying, treating, and then managing risks. Clear communication among your team and stakeholders is essential when it comes to ongoing monitoring of potential threats.

Continuous Improvement

Monitoring and review should be a planned part of the risk management process and involve regular checking or surveillance. The results should be recorded and reported externally and internally, as appropriate. Also, all responsibilities for monitoring and review should be clearly defined.
The firm's monitoring and review processes should encompass all aspects of the risk management process for the purposes of:

- Ensuring that controls are effective and efficient in both design and operation.
- Obtaining further information to improve risk assessment.
- Analysing and learning lessons from risk events, including near-misses, changes, trends, successes and failures.
- Detecting changes in the external and internal context, including changes to risk criteria and to the risks.
- Identifying emerging risks.

If an organisation gradually formalises its risk management process and develops a risk culture, it will become more resilient and adaptable in the face of change. This will also mean making more informed decisions based on a complete picture of the organisation's operating environment and creating a stronger bottom line over the long-term.

Communication

Effective communication and consultation are essential to ensure that those responsible for implementing risk management, and those with a vested interest, understand the basis on which decisions are made and the reasons why particular treatment options are selected.
Communicate and consult with internal and external stakeholders during any and all stages of the risk management process, particularly when plans are being first considered and when significant decisions need to be made.
Risk management is enhanced when all parties understand each other's perspectives and, where appropriate, are actively involved in decision-making. Methods of communication and consultation may include personal meetings, reports, learning packages, newsletters, and staff training.
A collaborative and consultative team approach – through co-creation – is more likely to:

- Ensure that risks are adequately identified;
- Bring together different areas of expertise when assessing or analysing risks;

- Ensure that different, and sometimes opposing, views are appropriately considered when defining risk criteria and in evaluating risks;
- Help secure endorsement and support for a treatment plan; and
- Enhance any change management processes associated with the risk.

The critical role performed by the risk manager is to effectively communicate the risk to the management and other stakeholders. Even if the firm has the best risk management systems and policies in place, if the risk managers don't communicate these risks effectively, then there could be more harm than good.

Conclusion

Project management is a complex activity that requires a structure, procedures, and processes that are appropriate for your project. This will enable you to manage the inevitable changes that occur throughout a project's lifespan in a professional manner to ensure success.

A risk is a future event that may or may not happen but if it does occur it will have an effect on project scope, schedule, cost, or quality. Risks include both threats and opportunities because both have uncertainty associated with them. A project manager needs to know the likelihood that a risk will occur and its potential impact on the project.

All risk management processes follow the same basic steps, although sometimes different jargon is used to describe these steps. Together these four *risk management process steps* combine to deliver a simple and effective risk management process.

The *risk register* is a list of all of the identified risks, their root causes, categories, and responses. All project team members should be encouraged to identify risks and this is an iterative process because new risks may become known as the project progresses.

Risk analysis uses the *risk matrix* to rank and *prioritise* risks. It should be performed as soon as possible after risks have been identified so that appropriate time and resources can be allocated to the more serious risks. Planned responses to risks should be appropriate to the significance of the risk, cost-effective in meeting it, realistic within the project context, agreed upon by all parties involved, and owned by a responsible person.

So much work is now run as projects and so few people have the necessary skills to manage them properly that there is a huge demand for good project managers and that demand is increasing all the time.

CHANGE MANAGEMENT

Introduction

Welcome to Change Management!

Change Management is a common buzz word in today's businesses. The way businesses manage change and how successful they are at it, depends largely on the nature of business, the change and the people involved.

Change is an alteration of a company's strategy, organisation or culture as a result of changes in its environment, structure, technology or people. A manager's job would be very straightforward and simple (not to say boring) if changes were not occurring in these areas. Good managers have the competence to manage change. These changes can be alterations in structure (design of jobs, span of control, authority relationships or coordinating mechanisms), in technology (equipment, work processes or work methods) as well as in people (behaviours, perceptions, expectations or attitudes).

Change Management is the structured approach for ensuring that changes are thoroughly and smoothly implemented and for achieving lasting benefits of change. The change management focus is on the wider impacts of change, particularly on people and how they, as individuals and teams, move from the current state to the future state. The change could range from a simple process change to a major system change to achieve the organisation's potential.

Change Management is a term for all approaches to preparing and supporting individuals, teams, and organisations in making organisational change.

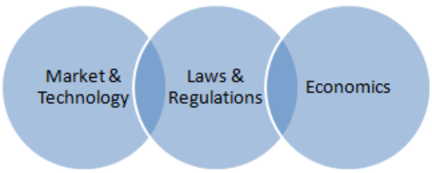
Reasons for Change

We will start this course by asking ourselves why change is necessary. A complex structure like an organisation is typically driven by *external factors* as well as *internal factors* in regard to the need for change, which we will examine in this first chapter.

External Forces

There are a number of external forces that create an explicit need for change. The *external environment* is all about *factors that occur outside of the company* that cause change inside organisations and are, for the most part, beyond the control of the company. Customers, competition, the economy, technology, political and social conditions, and resources are common external factors that influence the organisation.

External forces of change are often classified under three broad categories:



1. Market situation and technology

The global marketplace has created a huge need for change because of globalisation, internationalisation, and a more flexible and dynamic situation. Some of this could not have occurred without the various and dramatic changes in technology. An example of the changing marketplace is the deregulation of many industries and the trend towards privatisation.

2. Government laws and regulations

Government laws and regulations can have a large impact on an organisation such as with deregulation. Organisations have to change because it is now prescribed. New tobacco taxes and the legislation requiring tobacco manufacturers to disclose the harmful effects of tobacco smoking, for example, have created huge pressures on some large organisations in the USA and Europe. These organisations now have to change to ensure their economic viability.

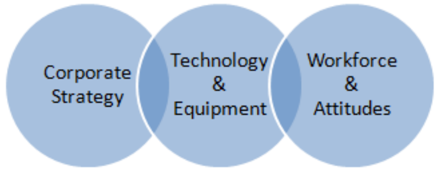
3. Economics

Finally, these economic ups and downs have a dramatic effect on organisations as well on domestic markets as the worldwide economic influence continues on organisations. This phenomenon could be seen during the last financial crisis. The effects were recognised in the USA first; then they hit Europe, Japan and finally the rest of the world. As a consequence, several automobile manufacturers have announced production cutbacks and reduced employment.

Even though the external environment occurs outside of an organisation, it can have a significant influence on its current operations, growth, and long-term sustainability. Ignoring external forces can be a detrimental mistake for managers to make. As such, it is imperative that managers continually monitor and adapt to the external environment, working to make proactive changes earlier on rather than having to take a reactive approach, which can lead to a vastly different outcome.

Internal Forces

The *internal environment* of an organisation refers to events, factors, people, systems, structures, and conditions inside the organisation that are generally under the control of the company. The company's mission statement, organisational culture, and style of leadership are factors typically associated with the internal environment of an organisation.
Parallel to the external reasons, there are three different internal forces for change:



1. Corporate strategy
It is not unusual for an organisation to change its strategy. It can lead e.g. to a large number of changes if the organisation decides to adopt a new distribution methodology or a new logistic strategy. Also, a merger will change an organisation's way of acting. For example, a company decides to enter the e-commerce business.
2. Technology and equipment
The introduction of new equipment or new technology is another internal force for change which affects an organisation. The implementation of new technology needs new processes or structures. Through this, employees will have to be trained for new work processes or new jobs.
3. Workforce and Employee attitudes
The composition of an organisation's workforce never stays static because it changes in terms of gender, age or education. New employees join the organisation and other people leave. With these changes, managers may need to redesign work and workgroups in order to ensure the job requirements match the skills of the people. Lastly, employee attitudes such as the level of job satisfaction can lead to either negative or positive forces for change.

Internal forces for change include:
1. corporate strategy, 2. technology & equipment, and 3. workforce & attitudes.
As such, it is the internal environment that will influence organisational activities, decisions, and employee behaviour and attitudes. Changes in the leadership style, the organisation's mission, or culture can have a considerable impact on the organisation.

Dealing with Change

Change management generally is difficult but no undoable. With a world closing in every day, companies are forced to critically reassess and, if necessary, change their business model, but also their organisational structure or their corporate culture.
Habits are a normal part of every person's lives, but they are often counterproductive when dealing with change. As humans, *we are not very good at changing*. We see changes as a negative thing that something creates instability and insecurity. This is the reason why a normal change management process often evolves through eight different mental phases:

1. *Denial*: We will fight the change to protect the status quo.
2. *Frustration*: When we realise that we cannot avoid the change, we become insecure.
3. *Negotiation*: We try to save what we can.
4. *Depression*: We realise that none of the old ways can be incorporated into the new.
5. *Acceptance*: We accept the change, and start to mentally prepare ourselves.
6. *Experimentation*: We try to find new ways, and gradually remove the old barriers.
7. *Discovery*: We realise that the change will improve our future possibilities.
8. *Implementation*. We finally implement the change process.

A change management process evolves through a number of mental phases.

Origins of the Field

How should we implement change within our organisation? To answer this question, we have to look at the origins of change management in the 1950s and the rivalry between advocates of *top-down approaches* and *bottom-up approaches.*

Top-down Management

Top-down organisations are characterised by the relatively low influence of subsystems. With the exception of the top management, employees are placed in a given process pattern. The organisation's units are coordinated within a system of regulations and the organisation's *development is steered from top-down.* In a top-down approach, strategic direction, policy, and planning occur at or just below the highest level of a company.

For example, a company's board of directors may develop and pass down its expectations in the form of strategic plans. From the strategic plans, company management develops the policies and action plans required to meet the strategic goals and passes them on down to the line management and supervisors.

Bottom-up Management

Bottom-up organisations are characterised by the relatively high influence of subsystems. The organisation's development is carried by involved employees. A structural partial autonomy is conceded to the single subsystems. The organisation's units are relatively independent in their execution of problems and could be basically capable of surviving on their own. Regulations are found primarily in the form of general behavioural instructions and the basis of "Common Sense".

The organisation's development is, therefore, *developing itself bottom-up.* In a bottom-up organisational approach, a company develops its policies, plans and directions from ideas, suggestions and solutions contributed from all levels of the company, inclusively encouraging employee participation in decision-making, problem-solving, and strategic planning.

More and more companies are using the bottom-up management style in their daily work. Companies like The New York Times, Ernst & Young and IBM are implementing elements of the management style throughout their hierarchy. These companies each offer unique methods of including employees at all levels of the decision-making process. The popularity of the bottom-up approach is growing, but many organisations are still hesitant to adopt.

Comparison

Comparing the bottom-up and top-down approaches, the advantage of a bottom-up orientation lies with the possibility of adapting the rhythm of the development and the capacity of the organisation for development. Small changes can be achieved at short notice or immediately while lasting changes run smoothly and could guarantee a constant improvement of the problem-solving capacity of the enterprise. On the other hand, permanent change processes and the constant restlessness linked with such change processes can also affect negatively the organisation, as possibly no clear direction is recognisable any longer.

Few enterprises are ready for a radical change in their orientation as demanded in a top-down approach. No organisation is able to reorganise itself and the whole value-added chain ad hoc. Frequently the longevity of the soft factor "enterprise culture" is underestimated. Changes in the enterprise culture need time and, hence, are an object of evolutionary and participative approach and not a revolutionary and authoritarian process. The advantages of the top-down approach are the straight-forward attempt of comprehensive, department-covering thinking and action and the focus on the central processes.

Nowadays, within modern change management approaches, top-down and bottom-up approaches are mixed. Analysis and the strategy development is mainly done top-down whereas continuous process improvement is driven from the bottom-up. A constant dialogue between the involved parties guarantees constant improvement and focusing on the core requirements.
In most modern companies top-down and bottom-up approaches are mixed.

Change Models

Change management models are useful in that they describe and simplify a process so that we can understand and apply the principles. The top models of change management described in this chapter have proven their value but all focus on very different processes and outcomes.

Lewin: Three-Stage Model

Kurt Lewin's three-stage model is the most famous model of change. His model has come to be known as the *Unfreeze-Change-Refreeze Model*. He noted that the majority of people tend to prefer and operate within certain zones of safety.

Lewin recognised three stages of change:

- *Unfreeze*: Most people make an active effort to resist change. In order to overcome this tendency, a period of thawing or unfreezing must be initiated through motivation.
- *Change (also titled Transition or Move):* Once change is initiated, the company moves into a transition period, which may last for some time. Adequate leadership and reassurance are necessary for the process to be successful.
- *Refreeze*: After change has been accepted and successfully implemented, the company becomes stable again, and staff refreezes as they operate under the new guidelines.

While this change management model remains widely used today, it is takes time to implement. Of course, since it is easy to use, most companies tend to prefer this model to enact major changes. Lewin's model will be discussed later in this course (Chapter 5) in more detail.

Lewin's theory of change used *blocks of ice* as a metaphor. If you have a large cube of ice but you want is a cone of ice, what do you do? First, you must melt the ice to make it amenable to change (unfreeze). Then you must mold the iced water into the shape you want (change). Finally, you must solidify the new shape (refreeze).

Kotter: 8-Step Change Model

Since the publication of his highly regarded book, Leading Change, Harvard Professor John Kotter has been highly regarded as a recognised global expert on change leadership. Kotter's model builds on the work of earlier researchers like Kurt Lewin by providing a fuller context for implementing change in modern organisations.
Kotter's eight-step model explains the process leaders can follow to effectively lead change in their organisations. It's a broad model that covers topics that include communication, planning, team building, senior leadership sponsorship, organisational reward systems, influence and negotiation, and organisational behaviour.

The 8 steps in Kotter's model are as follows:

1. *Increase urgency*: Inspire people to move, make objectives real and relevant.
2. *Build coalitions*: Get the right people in place with the right emotional commitment, and the right mix of skills and levels.
3. *Get the vision right*: Get the team to establish a simple vision and strategy focus on the emotional and creative aspects necessary to drive service and efficiency.
4. *Communicate*: Involve as many people as possible, communicate the essentials simply, to appeal and respond to people's needs. De-clutter communications – make technology work for you rather than against you.
5. *Empowerment actions:* Remove obstacles, enable constructive feedback and lots of support from leaders – reward and recognise progress and achievements.
6. *Create short-term wins*: Set aims that are easy to achieve – in bite-size chunks. A manageable number of initiatives. Finish current stages before starting new ones.
7. *Don't let up:* Foster and encourage determination and persistence – ongoing change – encourage ongoing progress reporting – highlight achieved and future milestones.

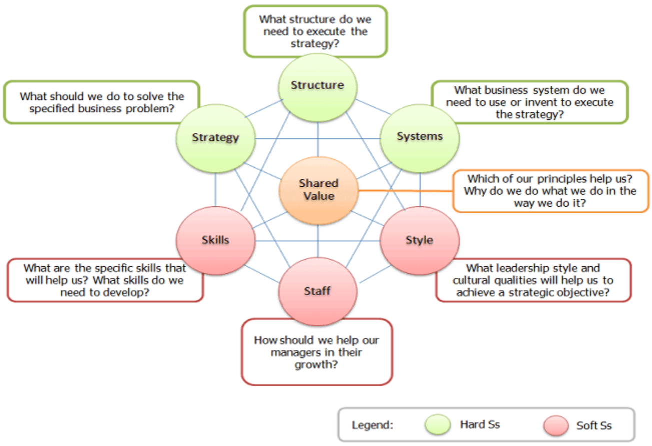
8. *Make it stick*: Reinforce the value of successful change via recruitment, promotion, and new change leaders. Weave change into culture.

Each of the steps that Kotter outlines in his process is important, but none may be as crucial as the first one. Kotter noted that for change to happen at least 75% of the company's management has to be on board. That's why it is so important to take the time and effort to build the urgency necessary to get others to buy-in to your change-related projects.

McKinsey: 7-S Model

Consultants at McKinsey & Company developed the *7-S Model* in the late 1970s to help managers address the difficulties of organisational change. The model shows that organisational immune systems and the many interconnected variables involved make change complex and that an effective change effort must address many of these issues simultaneously.

The 7-S Model is a tool for managerial analysis and action that provides a structure with which to consider a company as a whole so that the organisation's problems may be diagnosed and a strategy may be developed and implemented. The model looks at the seven key elements that make the organisations successful.



As depicted in the image above, the McKinsey 7-S model involves seven interdependent factors which are categorised as either "hard" or "soft" elements.

- "*Hard*" elements are easier to define or identify and management can directly influence them: these are strategy statements; organisation charts and reporting lines; and formal processes and IT systems.
- "*Soft*" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organisation is going to be successful.

The 7-S Model illustrates the interconnections of elements that define an organisation's ability to change. This theory helped to change managers' thinking about how companies could be improved. It says that it is not just a matter of devising a new strategy and following it through. To be effective, your organisations must have a high degree of it or internal alignment among all the seven Ss.

Each S must be consistent with and reinforce the other Ss. All Ss are interrelated, so a change in one has a ripple effect on all the others. It is impossible to make progress on one without making progress on all. Thus, to improve your organisation, you have to master systems thinking and pay attention to all of the seven elements at the same time.

The 7-S Model is a valuable tool to initiate change processes and to give them direction. A helpful application is to determine the current state of each element and to compare this with the ideal state. Based on this it is possible to develop action plans to achieve the intended state:

To help with successful organisational change, the 7-S Model is a good tool to use, especially in the following sequence:

- *Understand the current state*: Where are we now? What is our current strategy? How are we performing?
- *Understand the future state:* Where do you want to go? What is the strategy? How competitive will you be?

- *Create a 7-S Model review on the current state*: Understand all the current elements with the organisation at present.
- *Create a 7-S Model review on the future state:* What would the seven elements look like if they were all in tandem to suit the new direction?
- *Compare the future framework with the current state* and create a plan to address the actions to fill the gaps in each of the 7 elements.

Gleicher: Change Formula

The *Change Formula* is a mathematical representation of the change process, developed by David Gleicher and Kathie Dannemiller.

The basic notion is that, for change to occur, the costs of change must be outweighed by dissatisfaction with the status quo, the desirability of the proposed change, and the practicality of the change. There will be resistance to change if people are not dissatisfied with the current state of the organisation, or if the changes are not seen as an improvement if the change cannot be done in a feasible way, or the cost is far too high.

The equation says three factors must be present before meaningful change can take place:

- *D = Dissatisfaction* with the status quo. Simply continuing with things is not an option.
- *V = Vision* of what is possible. There is at least a vague sense of a better future.
- *F = First practical steps* that can be taken towards the vision. These steps have to be concrete and acceptable

Change Formula:

$(D \times V \times F) > R$

If any of these factors D, V, and F are missing then the others are canceled out and you will not be able to overcome resistance (R). And if the multiplication of these three factors is greater than R – the resistance to change – then change becomes possible.

When planning for change you need to make sure all three factors are present before you start. When trouble-shooting during a change you can use the formula to work out why you may be having problems. It also provides a useful evaluation tool to assess the final outcome.

The Change Process

The change management process is the sequence of steps that a manager needs to follow to apply change management to a project. Kurt Lewin proposed the *Unfreeze-Change-Refreeze Model,* which was briefly discussed in chapter 4.

I. Unfreeze

A basic tendency of people is to seek a context in which they have relative *safety* and feel a sense of control. In establishing themselves, they attach their sense of identity to their environment. This creates a *comfortable stasis* from which any alternatives, even those which may offer significant benefits, will cause discomfort.

The term ‘change ready’ is often used to describe people who are unfrozen and ready to take the next step. Some people come ready for change whilst others take a long time to let go of their comfortable current realities.

Here are some ways to make it happen:

- *Burning platform*: Expose or create a crisis
- *Command*: Just tell them to move
- *Evidence*: Hard data is difficult to ignore
- *Restructuring*: Redesign the organisation to force behaviour change
- *Envisioning*: Done well, visions work to create change

II. Transition

A key part of Lewin’s model is the notion that change, even at the psychological level, is a *journey* rather than a simple step. This journey may not be that simple and the person may need to go through several stages of misunderstanding before they get to the other side.

A classic trap in achieving change is for leaders to spend months on their own personal journeys and then expect everyone else to cross the chasm in a single bound. Transitioning thus *requires time*. Leadership is often important and when whole organisations change, the one-eyed person may consider himself a “king”. In such a case, some form of coaching, counselling or other psychological support will often be very helpful.

Although the transition may be hard for the individual, often the hardest part is to make a start. Even when a person is unfrozen and ready for change, that first step can be very scary. People become comfortable in temporary situations where they are not accountable for the hazards of normal work and where talking about change may be substituted for real action.

- *Challenge*: Inspire them to achieve remarkable things
- *First steps*: Make it easy to get going
- *Involvement*: Give them an important role
- *Open space*: People talking about what concerns them
- *Shift-and-sync*: Change a bit – then pause

III. Refreeze

At the other end of the journey, the final goal is to 'refreeze', to *establish a new place of stability.* In practice, refreezing may be a slow process as transitions seldom stop cleanly, but go more in fits and starts with a long tail of bits and pieces. There are good and bad things about this.

In modern organisations, this stage is often rather tentative as the next change may well be just around the corner. What is often encouraged, then, is more a state of 'slushiness', where freezing is never really achieved (theoretically making the next unfreezing easier).

The danger with this is that many organisations have found that people fall into a state of 'change shock', where they work at a low level of efficiency and effectiveness as they await the next change. 'It's not worth it' is a common phrase when asked to improve what they do.

- *Burning bridges*: Ensure there is no way back
- *Evidence stream*: Show them time and again that the change is real
- *Golden handcuffs*: Put rewards in their middle-term future
- *Institutionalisation*: Build change into the formal systems and structures
- *Reward alignment:* Align rewards with desired behaviours

Strategies and Skills

Managing the kinds of changes encountered by and instituted within organisations requires an unusually broad set of skills and strategies. In this chapter, we will briefly discuss the most essential change skills and change strategies that managers need to master today.

Change Skills

Every effective change manager needs a set of specific skills:

1. Political Skills

Organisations are social systems. Therefore, organisations are intensely political. Change agents dare not join in this game but they have to understand it. Managers and employees have to deal with conflicts and to compromise on disputes on a daily basis. This is one area where you must make your own judgments and keep your own counsel.

2. Analytical Skills

Furthermore, change agents need advanced analytical skills. Two particular sets of skills are very important here: systems analysis and financial analysis. Change agents must learn to take apart and reassemble operations and systems in novel ways, and then determine the financial and political impacts.

3. People Skills

People are the most important resource of an organisation. The skills most needed in this area are those that typically fall under the heading of communication or interpersonal skills. To be effective, we must be able to listen and listen actively, to restate, to reflect, to clarify without interrogating, to lead or channel a discussion, to plant ideas, and to develop them. Part of the job of a change agent is to reconcile and resolve the conflict between and among different points of view.

4. System Skills

Every organisation can be seen as a system. In the past, managers typically took one part and focused on that. Then they moved all attention to another part. Systems theory has brought a new perspective for managers: Now, more managers are recognising the interrelations of the parts. There are two sets of system skills to be mastered: Computers and the larger, information processing systems (in which computers are so often embedded) are generally known as hard systems. Compensation systems, appraisal systems, promotion systems, and reward and incentive systems in a company are soft systems. A good change agent understands that both system types are important.

5. Business Skills

Finally, every change agent should understand how a business works. This entails a basic understanding of accounting (where the money comes from and where it goes), knowledge of markets and marketing, products and product development, customers, sales, buying and selling, as well as human resource management.

Effective change managers need to master 1. political skills, 2. analytical skills, 3. people skills, 4. system skills, and 5. business skills.

Change Strategies

For successfully leading and completing a project, various strategies can be applied. When deciding which strategy to follow, the manager needs to take specific characterisations of the organisation (type of business, age of employees, etc.) into account.

1. Directive Strategies

This strategy highlights the manager's right to manage change and the use of authority to impose change with little or no involvement of other people. The advantage of the directive approach is that change can be undertaken quickly. However, the disadvantage of this approach is that it does not take into consideration the views or feelings of those involved in the imposed change. This approach may lead to valuable information and ideas being missed and there is strong resentment from staff when changes are imposed rather than discussed.

2. Expert Strategies

This approach sees the management of change as a problem-solving process that needs to be resolved by an 'expert'. This strategy is mainly applied to more technical problems and will normally be led by a specialist project team or an outside consultant. The advantages of utilising this strategy are that experts play a major role in the solution and the solution can be implemented quickly as a small number of 'experts' are involved. Again, there are some issues in relation to this strategy as those affected may have different views than those of the expert.

3. Negotiating Strategies

This approach highlights the willingness on the part of senior managers to negotiate and bargain in order to effect change. This strategy acknowledges that those affected by the change have the right to have a say in what changes are made, how they are implemented and the expected outcomes. The disadvantage of this approach is that it takes more time to effect change and the outcomes cannot be predicted. The advantage is that individuals will feel involved in the change and be more supportive of the changes made.

4. Educative Strategies

This approach involves changing people's values and beliefs in order for them to fully support the changes being made and move toward the development of a shared set of organisational values which individuals are willing, and able to support. A mixture of activities will be used: persuasion; education; training and selection, led by consultants, specialists, and in-house experts. The disadvantage of this approach is that it takes longer to implement. The advantage is that individuals within the organisation will have positive commitment to the changes being made.

5. Participative Strategies

This strategy stresses the full involvement of all of those involved in the anticipated changes. The process will be less management-dominated and driven more by groups or individuals within the organisation. The main disadvantages of this process are the length of time taken before any changes are made. However, the benefits of this approach are that any changes made are more likely to be supported due to the involvement of all those affected. The organisation and individuals also have the opportunity to learn from this experience, thus increasing their skills, knowledge, and effectiveness.

Best Strategy?

These five change strategies are not mutually exclusive and a range of strategies can be employed to effect change. Part of the skill of effective change management is to recognise what strategy to employ, and when, where and how to use it. Other issues such as health and safety, accessibility and union representation may also need to be taken into consideration when deciding what strategy to adopt.

But no matter which model is used, it has to be supported and clearly communicated by the top management. The executive board has to act as a role model and should start the change process by directly communicating with the people affected by the change. The executive board has to confirm the changed strategy, organisation and business culture by being an example and they have to be supportive of the departments and managers affected.

Failure or Success?

There are a number of reasons why some change projects fail while others succeed. In this chapter, we will take a look at the most common failure and success factors. Keeping these factors in mind will enhance your chances to successfully complete change projects within your organisation.

Failure Factors

1. Insufficient Awareness

A change process never begins without reason. Mostly there is a trigger for change processes. Triggers can be diverse, like new legal requirements, increasing competition or internal reasons. Normally these triggers are discussed extensively amongst top management. This way, *awareness* of existing problems and the necessity to make changes arise. In practice, only part of the information makes its way to the lower leadership level. The lower level manager and his or her employees afterward often see little necessity for change.

There are some more reasons which also depend upon *information flow*. New executives in a company try to protect workers from disturbance and difficulties so that they are more productive and can work undisturbed. But this buffering or protection is often misunderstood. If the workers do not have a transparent view of the situation of the company, it is unlikely that they will support the change process.

2. Insufficient Communication

In most change projects, the biggest mistakes are made in the area of communication. Experience shows that at the beginning, during, and at the realisation of changes the *communication frequency* is often too low. Change processes require information events and sometimes discussion forums. Information is also provided only in part. It is even more harmful if the relevant information is published step-by-step.

3. Inappropriate Procedure

The wish to involve employees in an "eat or die" mentality is often found in IT projects. In such a project, employees must work with the new software or hardware, regardless of whether they were involved or not in its implementation. This style of management is extremely bad. Employees do not obtain any information about the progress of the change-project and are informed later only e.g. by a mail about the use of the new software. Often employees will boycott the new system and use it as little as possible.

Further examples of an inappropriate procedure or a *"bad style*", which should be avoided, include ignoring objections or counterarguments, making remarks in public about opposite doubters, and presentation of incorrect facts in support of the wanted change. This behaviour is counterproductive and is often returned in kind by the concerned persons, normally as a boomerang, by actively delaying the targeted changes or letting them fail altogether.

4. Workload and Speed

Every enterprise and every organisation needs continuous adaptation to changed general conditions and factors in order to survive in the present markets or in the environment of the organisation. Correspondingly, the tact of change processes is often set by outside factors.

With the high speed of change processes and the high number of changes, more "*speed mistakes*" are surfacing. Changes are often initiated too early (the company, the employees or customers are not ready) or realised too late (product was introduced already by other enterprises). In addition, people can stand only a certain amount of change at a certain time. If this amount is being extended, the people won't go on. This may not be immediately externally recognisable. It can also appear in the form of fewer motivations.

5. Lack of Control

If a change process is initiated, one should also pay attention to the sustainability of the targeted changes. In many cases, too little *controlling* attention is paid during implementation. Sometimes it is difficult to measure the success of the implementation, especially when employee behaviour should be taken into account.

Furthermore, the problem of *accountability* can be added. Even if customer contentment or business numbers increase, how can one prove that this is associated with the realisation of a new strategy or structure? There can be many other good reasons for such developments and these could lie outside the enterprise. Therefore controlling real results requires some complex and extensive instruments.

Success Factors

1. Build a Business Case

A *Business Case* is the description of the reasons for the project and the justification for doing it. The Business Case should set out the problem or situation addressed by the proposal, the implementation plan, the expected costs, the anticipated outcomes and benefits and the expected risks associated with the proposal's implementation. The Business Case Process should ensure that both the value and risks inherent in the proposed project are clear in that the delivery of the outcomes and benefits can be tracked and measured.

2. Determine Readiness

There are some tools to evaluate how ready your organisation is or if you will need to conduct a pre-change intervention. If you can answer most of the following questions with "yes" your company is ready for the change:

- Are the organisation's top managers strong supporters of this change?
- Do I understand what is wrong with the way things are now?
- Do I have all the information I need to get on board with this change and I understand the sense of urgency?
- Do I have a clear picture of how the organisation will be different after the change has been implemented
- Do I know where to go for help if I have questions, concerns, or challenges related to the change?

If the results indicate that your organisation is not ready for a change, pre-changes have to be made.

3. Improve Communication
Communication is one of the most important factors in the change process. It has already been mentioned that poor communication has a deep impact on the success of a change. Poor communications will at best hinder progress and at worst sink the project. There is another tool to make sure that everybody knows what is and will be going on in the upcoming change process: The *Communication Plan.*
There are a lot of different ways in which to communicate. Bulletin boards, cafeteria postings, cascading communication trees, change booklets, corporate newsletters (feature section), department or enterprise meetings, emails, focus groups, frequently asked questions memos, intranet pop-ups, leaflets, one-on-one meetings, posters, presentations, project newsletters, roadshows, team meetings, word of mouth and workshops should be utilised. Participants indicated that face-to-face communications were the most effective. Face-to-face interactions included group and team meetings, presentations and demonstrations and one-on-one discussions.
Communication should always be open and "risk-free", where employees can ask questions. Also, using different types of communication is better than just using one channel.
4. Involve Stakeholders
One of the most important things in change management is to get people involved. One thing is to get *senior management* on your side. Without this high-level buy-in, change will often fail. So before you start make sure that you have the support of management.
On the other hand, there are the *employees*. They need to feel like being part of the changes they are involved in. Keep them involved and informed about changes you are trying to make. Often people who are affected by change processes are not really involved, which has primarily two results: Fear of loss of time and too little know-how of the means by which to integrate the many concerned persons. Possible losses of time are relocated in the case of nearer consideration. In fact, the integration of stakeholders takes time, but normally it costs more time if the realisation of the change process slows down if people do not believe in the change.
5. Review the Change
After the change project is implemented a review of the change is necessary. It is important to get the opinions of the participants in order to ascertain whether they are satisfied with the change. Also, a review will provide you with important information that can be used in upcoming change projects. This will improve further change projects and help to avoid mistakes.
One solution could be a *workshop* with the people who are directly involved with the implementation. All the people who are affected by the changes should have an opportunity to relate their experiences. The main for this is that the success of the change process can be measured by this method, but also that employees are given the certainty that their opinion is valued.

Conclusion

Change management is the correct understanding of the *organisation* that wants to be changed, the correct understanding of the *people* who are willing to change, the effective *realisation* of change, and the understanding the *dynamics* of change.
Changes should be facilitated by the organisational structure because this enhances adaptation and flexibility. A simple organisational structure will reach a simple dynamic environment or, on the other hand, a simple dynamic environment needs a simple structure only. For a complex dynamic environment, an adhocracy will be needed.
Adhocracy means more democracy and less bureaucracy. One of the most important points is the people because they form the organisation. The culture of the organisation includes its way of working, attitudes and norms. These facts are at the core of every change and they are difficult to handle. Personal modifications regarding attitudes or skills in leadership or communication are hard to identify but ineffectiveness can be indicated by problems and conflicts in the management of human resources.
Most failed change projects underestimated or simply did not take into account the human factor. To avoid this failure the assistance of change experts or change agents (in most cases professional consultants) should be sought. Not only that most employees have no or little experience in the field of change management. In most cases, people are used to their environment and emotionally unwilling to change. When the change process is not guided by externals, it is highly recommended that executive managers familiarise themselves with the toolbox of change management.
Last but not least, it is easy to be preachy about change. It is easy to tell others to change their habits, attitudes, and behaviour. But one can only make partial adjustments to one's personality. And, of course, that requires loads of inspiration. If you wish to remould your company or organisation, first make sure you really want the change and get enthusiastic about the opportunities.

LEADERSHIP AND TEAM MANAGEMENT

Introduction

Welcome to Leadership & Team Development!
Probably the most important part of becoming any sort of leader in the modern workplace is to be the person that others choose to follow. Even where compulsion is possible, it tends not to work very well.

If people decide that they don't want to do things your way, then they can find any number of ingenious ways to undermine your wishes. Even if the obstructive behaviour justifies dismissal, firing someone always has negative consequences for morale, focus, and productivity. In fact, you can end up spending so much time and effort defending your decision to your boss, co-workers, or an employment tribunal that you don't have any time left to do your job properly.

If you want to take a leadership role, then the most important questions you can ask are:

- Which leadership style is the most appropriate?
- Which leadership style is most prevalent in your organisation?
- Why should my team follow my lead?
- How can I alter my competencies and behaviours to become this type of leader?

The answers to these questions depend on your *role*, your *team,* and the *task* at hand. Whilst there are some skills that you will need to develop in order to be an effective leader, your role, your team, and the task will all affect which of these skills you use.
Before getting down to answering the question of why people would choose to follow your lead, you will need to understand the different leadership styles and types of teams that are found in the workplace.

Leadership vs Management

Although sometimes used synonymously, leadership and management can be quite different. Leaders may be managers, but not all managers are leaders. The main difference between leaders and managers is that leaders have people follow them while managers have people who work for them.

"Management is doing things right; leadership is doing the right things." - Peter F. Drucker

A successful business owner needs to be both a strong leader and manager to get their team on board to follow them towards their vision of success. Leadership is about getting people to understand and believe in your vision and to work with you to achieve your goals while managing is more about administering and making sure the day-to-day things are happening as they should.

Key characteristics of a *strong leader* are:

- *Honesty & Integrity*: get your people to believe you and buy into the journey you are taking them on
- *Vision*: know where you are, where you want to go and enrol your team in charting a path for the future
- *Inspiration*: making sure your team understands their role in the bigger picture
- *Ability to Challenge*: do things differently and have the courage to think outside the box
- *Communication Skills*: keep your team informed of the journey and where you are heading

Common traits of a *strong manager* are:

- *Being Able to Execute a Vision:* take a strategic vision and break it down into a road map to be followed
- *Ability to Direct*: day-to-day work efforts, review resources needed and anticipate needs along the way
- *Process Management*: establish work rules, processes, standards, and operating procedures
- *People Focused*: look after your people, their needs, listen to them and involve them

In order for you to engage your staff in providing the best service to your guests, clients or partners, you must enrol them in your vision and align their perceptions and behaviours. You need to get them excited about where you are taking them while making sure they know what's in it for them. With smaller organisations, the challenge lies in making sure you are both leading your team as well as managing your day to day operation. Those who are able to do both will create a competitive advantage.

Remember: leaders may be managers, but not all managers are leaders!

Leadership Theories

What is it that makes some people excel in leadership roles? Leadership theories seek to explain how certain people become leaders. Such theories often focus on the characteristics of leaders, but some attempt to identify the behaviours that people can adopt to improve their own leadership abilities.
A number of different leadership theories have been introduced to explain exactly how and why certain people become great leaders, but most can be classified into eight major types:

1. "Great Man" Theories

Have you ever heard someone described as "born to lead?" According to this point of view, great leaders are simply born with the necessary internal *characteristics* such as charisma, confidence, intelligence, and social skills that make them natural-born leaders. Great man theories assume that the capacity for leadership is inherent – that great leaders are born, not made. These theories often portray great leaders as heroic, mythic and destined to rise to leadership when needed. The term "Great Man" was used because, at the time, leadership was thought of primarily as a male quality, especially in terms of military leadership.

2. Trait Theories

Similar in some ways to Great Man theories, trait theories assume that people inherit certain *qualities and traits* that make them better suited to leadership. Trait theories often identify particular personality or behavioural characteristics shared by leaders. For example, traits like extraversion, self-confidence, and courage are all traits that could potentially be linked to great leaders. If particular traits are key features of leadership, then how do we explain people who possess those qualities but are not leaders? This question is one of the difficulties in using trait theories to explain leadership. There are plenty of people who possess the personality traits associated with leadership, yet many of these people never seek out positions of leadership.

3. Contingency Theories

Contingency theories of leadership focus on particular variables related to the environment that might determine which particular style of leadership is best suited for the situation. According to this theory, no leadership style is best in all situations. Success depends upon a *number of variables*, including the leadership style, qualities of the followers and aspects of the situation.

4. Situational Theories

Situational theories propose that leaders choose the best course of action based upon *situational variables.* Different styles of leadership may be more appropriate for certain types of decision-making. For example, in a situation where the leader is the most knowledgeable and experienced member of a group, an authoritarian style might be most appropriate. In other instances where group members are skilled experts, a democratic style would be more effective.

5. Behavioural Theories

Behavioural theories of leadership are based upon the belief that great leaders are made, not born. Consider it the flip-side of the Great Man theories. Rooted in behaviourism, this leadership theory focuses on the actions of leaders, not on mental qualities or internal states. According to this theory, *people can learn* to become leaders through teaching and observation.

6. Participative Theories

Participative leadership theories suggest that the ideal leadership style is one that takes the input of others into account. These leaders encourage *participation* and contributions from group members and help group members feel more relevant and committed to the decision-making process. In participative theories, however, the leader retains the right to allow the input of others.

7. Management Theories

Management theories, also known as transactional theories, focus on the role of supervision, organisation and group performance. These theories base leadership on a *system of rewards and punishments.* Managerial theories are often used in business; when employees are successful, they are rewarded; when they fail, they are reprimanded or punished.

8. Relationship Theories

Relationship theories, also known as transformational theories, focus upon the *connections* formed between leaders and followers. Transformational leaders motivate and inspire people by helping group members see the importance and higher good of the task. These leaders are focused on the performance of group members, but also want each person to fulfil his or her potential. Leaders with this style often have high ethical and moral standards.

There are many different ways of thinking about leadership, ranging from focusing on the personality traits of great leadership to emphasising aspects of the situation that help determine how people lead. Like most things, leadership is a highly multi-faceted subject and it is a mixture of many factors that help determine why some people become great leaders.

Leadership Styles

There is not a one-size-fits-all leadership style for all firms. However, having a thorough understanding of various leadership styles enables executives to not only adopt the correct characteristics for themselves but also choose better managers throughout the organisation.

Autocratic Leadership

This style of leadership is both *directive and controlling*. The leader will make all decisions without consulting employees and will also dictate employee roles. Micromanaging is a form of autocratic leadership in which upper management controls even the smallest tasks undertaken by subordinates. The autocratic style of leadership limits employee freedom of expression and participation in the decision-making process. It may result in alienating employees from leadership and will not serve to create trust between managers and subordinates. Further, creative minds cannot flourish under autocratic leadership.

Autocratic leadership may best be used when companies are managing less experienced employees. Western companies operating in less developed countries often use autocratic leadership. It allows the parent corporation more control over its overseas investment. In countries where the government controls the economy, Western corporations often use autocratic leadership because the employees are used to making decisions to satisfy the goals of the government, not the parent corporation.

Managers should not use the autocratic leadership style in operations where employees expect to voice their opinions. It also should not be used if employees begin expecting managers to make all the decisions for them, or if employees become fearful or resentful.

Laissez-Faire Leadership

This free-rein form of leadership, if it is to be successful, requires extensive communication by management with employees. It is the style of leadership that makes employees responsible for most of the decisions that are made, and in which they are *minimally supervised*. Employees are responsible for motivating and managing themselves on a daily basis under this leadership style.

Laissez-faire leadership may best be used when employees are educated, knowledgeable, and self-motivated. Employees must have the drive and ambition to achieve goals on their own for this style to be most effective.

Laissez-faire leadership is not a good idea in situations where employees feel insecure about the manager's lack of availability or the manager is using the employees to cover for his or her inability to carry out his or her own work. This type of situation can create resentment and result in an unhealthy work environment.

Democratic Leadership

This style of management is centred on *employee participation* and involves decision making by consensus and consultation. The leader will involve employees in the decision-making process and they will be encouraged to give input and delegate assignments. Democratic leadership often leads to empowerment of employees because it gives them a sense of responsibility for the decisions made by management. This can also be a very effective form of management when employees offer a different perspective than the manager, due to their daily involvement with work. A successful leader will know when to be a teacher and when to be a student.

Democratic leadership may best be used when working with highly skilled and experienced employees. It is most useful for implementing organisational changes, for resolving group problems, and when the leader is uncertain about which direction to take and therefore requires input from knowledgeable employees.

One of the downsides of democratic leadership is that it may lead to endless meetings and therefore create frustration among employees if used for every decision made by a company. Democratic leadership is not a good idea in situations when the business cannot afford to make mistakes – for instance, when a company is facing a crisis situation such as bankruptcy.

As with many categories that describe business concepts, an organisation and its leadership may apply any or all of these leadership styles.

For instance, the managing partners of an architectural firm may utilise autocratic leadership style with the lower levels in its clerical and administrative functions but employ a democratic or laissez-faire leadership style with its professional staff of architect-associates and partners.

Transformational Leadership

Transformational leadership is based on the ability of the leader to *motivate and influence* followers through their *intellectual stimulation*, and *individual consideration*. These leaders offer a role model that inspires, interests, and challenges their followers to take greater ownership for their work. A transformational leader

understands the strengths and weaknesses of each follower and assigns tasks that enhance each individual's performance.
Leaders who have a *clear vision* and are able to articulate it effectively to others often characterise this style of leadership. They look beyond themselves in order to work for the greater good of everyone. This type of leader will bring others into the decision-making process and will allow those around them opportunity to learn and grow as individuals.
They seek out different perspectives when trying to solve a problem and are able to instil pride into those who work under them. Transformational leaders spend time coaching their employees and learning from them as well.

Transactional Leadership

This leadership style is characterised by *centralising control* over employees. The transactional leader will control outcomes and strive for behavioural compliance. Employees under a transactional leader are motivated by the transactional leader's praise, raise, and promise (*rewards*). They may also be corrected by the leader's negative feedback, threats, or disciplinary action *(sanctions).*

This type of leadership makes certain assumptions about your team. Firstly, that they are only motivated by reward or punishment; they have no self-motivation. Secondly, that they know from the outset that they must obey your instructions without question and expect to be closely monitored and controlled.
The most effective leadership style is using a combination of styles. Leaders should know when it is best to be autocratic and when to be democratic. They can also be transformational and transactional at the same time; these are not mutually exclusive styles and in fact can complement one another extremely well.

Leadership Trends

In today's competitive environment, leaders are continually searching for new ideas and approaches to improving their understanding of leadership. They need to stay on top of the current trends influencing their company, their industry, their employees and attitudes toward the working world in general.
These are five of the most important recent leadership trends:

1. Coaching
A new trend of effective leadership, coaching, has become extremely popular throughout different organisations. When coaching, management provides employees with ideas, feedback, and consultation, but decisions will ultimately be left in the hands of the employees. Coaching prepares employees for the challenges they will face. The lower an employee's skill and experience level, the more coaching the worker will require. The interactions that an employee has with the manager are the best opportunities they have for enhancing their respective skills. Coaching enables the employees to excel at their tasks. Instilling confidence in employees is extremely important. If management conveys the belief that employees will exceed expectations, it helps them do so.
2. Employee Empowerment
As organisations and companies become increasingly borderless, employee empowerment becomes ever more important. This trend in leadership has allowed employees to participate in the decision-making processes. Employee empowerment is also a method for building employee self-esteem and can also improve customer satisfaction. It also ties them more closely to the company goals and will serve to increase their pride in their work and loyalty to the organisation.
3. Global Leadership
As corporations become increasingly international in scope, there is a growing demand for global leaders. Although many of the qualities that make a successful domestic leader will make a successful global leader, the differences lie in the abilities of the leader to take on a global perspective. Global leaders are often entrepreneurial; they will have the ambition to take their ideas and strategies across borders. They will also have to develop cultural understanding; global leaders must be sensitive to the cultures of those working under them, no matter where they are based. Global leaders must also be adaptable; this is part of accepting the cultural norms of different countries in which they are operating. They must know when to adapt the operational structure of the organisation or adjust their leadership styles in order to relate to those around them. However, as adaptable as they must be, the global leader should not adapt his or her ethics or values to suit local tastes. Global leaders must also serve as role models, fighting corruption, not giving in to it.
4. Equitable Treatment
An important trend in leadership is the equitable treatment of employees. This does not mean that each employee will be treated the same; it means that every employee will be given the amount of individual attention they require, and it will involve leadership knowing his or her employees. A good leader will get to know employees well enough to give them what they need in order to best perform. For some employees that may mean more structure; for others, it may mean more freedom. Some employees may need to be monitored more carefully,

while others may work better independently. Leaders must know how to bring out the best in employees and how to build solid relationships with them; the most effective way of doing this is by getting to know them individually.
5. Feedback
Employees thrive on feedback, and by providing feedback and communicating effectively, managers can give employees the tools they need to improve their performance. Providing feedback will not dampen employee morale in most cases, but will allow opportunities for employees to learn from their mistakes and move on to perform their tasks better. Positive reinforcement should be used to encourage employees' positive behaviour, but when criticism is necessary, make sure it is constructive. Managers can do this best by telling employees exactly what was observed and how they interpreted it; this also will allow employees to better understand what the manager saw in their performance and to explain if there has been a misunderstanding.

Tuckman's Group Stages

One of the most influential studies about team building is Bruce Tuckman's four-stage model called 'Tuckman's Stages for a Group' from 1965. It states that the ideal group decision-making process should occur in four stages. These enable a group to tackle problems, find solutions and deliver results.

Stage 1: Forming

This first stage involves the bringing together of a group of individuals to form a team. At this stage, members usually have positive expectations about the venture, although they may harbour some anxiety about other members, such as who they are and what they are like. At this point, it is about *building relationships* within the group and clarifying the team's mission. Initially, individuals behave independently of each other, but as they gather information and impressions the team members begin to agree on goals and tackle particular tasks.
The length of this first stage will depend on how clearly the task is defined and on how much experience the individuals have of working in a team. Groups with simple tasks will move through orientation quickly, but groups with complex goals and tasks may spend much longer in this stage. Teams made up of people who are used to being autonomous will take longer to build the necessary relationships for a successful team than those used to working in a group. Many individuals may be reluctant to contribute at this stage and their support of the leader is given cautiously.
As a manager you need to be very 'hands-on' at this stage, giving clear directions and structure to make sure that your team builds strong relationships. You can facilitate this by making sure your communications dispel any misunderstandings that could arise about roles and responsibilities.
With decisions being made in the majority of cases by the nominated leader you also need to ensure that no team member is committing themselves to do too much, or too little, of the planned work.
By paying attention from the outset to building good relationships, as well as focusing on a clearly defined task, your team will perform better than teams whose managers rush through or skip over the relationship-building stage.

Stage 2: Storming

During this second stage, where team members feel more able to express and question opinions, you will see more evidence of internal conflict. Your role as a manager is to contain and direct this *energy into a productive channel.* You need to be aware that some level of internal conflict will cause a simultaneous dip in team morale.
Your management role will have to become more supportive, guiding the team in their decision-making and offering explanations of how these decisions came about. You need to define what you and the organisation expect of the team in terms of professional behaviour.
This more instructional approach will enable you, as team manager, to prevent any conflict from getting out of control and poisoning relationships between team members.
You will be able to recognise when your team moves into the 'storming' stage because you will observe your team beginning to address the differences between their initial perceptions and the reality of the situation that they have been formed to address. This will cover issues such as what problems they are really supposed to solve, how they will function independently and together, and what leadership model they will accept.
As your team members begin to negotiate the work assignments and express their views on the best way to achieve the task outcome disagreements will arise. Through your active listening skills, you will mediate and help decisions to be made through compromise as the most efficient way to attain the necessary outcomes.
While your team members confront each other's ideas, test differing perspectives, discuss what the group needs to do, and how best to accomplish it, your role becomes one of a facilitator building trust within sub-groups of the team.
Team storming, whilst it may be contentious and unpleasant, will be resolved relatively quickly with your guidance and support. You must view this as a necessary step for your team to become a cohesive whole, not as

an enormous irritation to be dismissed. You may also choose to break the team into smaller subsets of cohesive individuals within your team so that morale and productivity are raised.

Stage 3: Norming

Once your team has reached the third stage of its development the members focus on resolving differences so that the mission and goals can be clearly defined. Your role within the team transfers from that of a leader to that of a team member.

Team members are learning more about each other and how they will work together and are developing tools such as a problem-solving process, a code of conduct, a set of team values, and measurement indicators. The team has now established core processes, and as manager, you need to ensure the team avoids spending unnecessary time on issues related to the smaller processes.

During this period of negotiation and discussion, your role becomes one of observer and facilitator in order to assist your team in establishing the ground rules of behaviour as they learn to work together. Their attitudes are characterised by decreasing animosities toward other members; feelings of cohesion, mutual respect, harmony, and trust; and a feeling of pleasure in accomplishing tasks.

Your team is truly developing a sense of *team pride*, and you will see evidence of increased productivity as skills develop. The team arrives at decisions that are more in line with their purpose rather than from a position of compromise.

You can begin to transform your role as coach to one of a mentor and delegator, offering your team greater opportunities to raise their levels of expertise.

Stage 4: Performing

Now your team has reached the final stage of its development and can bring real benefits to you and the organisation. Your team members are now competent, autonomous, and able to handle the decision-making process without supervision.

Your team has been accomplishing work at every stage, but it is at this ‘performing’ stage that work is accomplished most effectively. Morale is high and the general atmosphere is positive. Team members’ attitudes are characterised by positive feelings and eagerness to be part of the team.

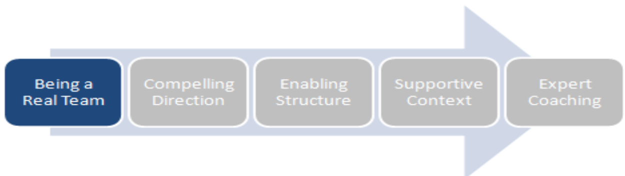
Members are *confident about the outcome,* enjoy open communication, exhibit high energy, and disagreement is expected and allowed as long as it is channeled through means acceptable to the team. Leadership within the team is often shared and tasks are delegated within the team, which makes the overall decision-making process operate more easily than at earlier stages.

As a manager, once your team is operating at this level then your role becomes one of overseer and delegator. You are no longer involved in day-to-day activities and the team’s relationships with each other emulate the high degree of trust and loyalty you show in your relationship with the team.

Another key task you will perform at this stage is one of monitoring your team’s relationships and performance to ensure that the group dynamics remain positive and productive. This is because changes in the dynamics of the group can result in high-performing teams reverting to earlier team-building stages.

Hackman’s Five-Factors-Model

In 2002, whilst working at Harvard University, J. Richard Hackman developed a research-based model for designing and managing workgroups. His research centred around the question of *why only some groups were successful*. He identified the factors that can increase the chances of success for teams.



1: Being a Real Team

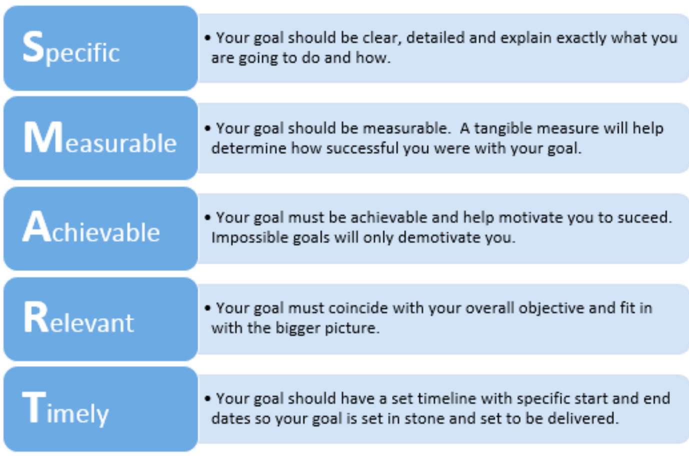
What does Hackman mean by ‘being a real team’? The elements he said were required to ensure your team is ‘a real team’ are:

- the members have a *shared task,*
- the team *boundaries* clearly state who is inside or outside of the group, and
- the group membership is *stable.*

As a manager, you will have direct control over the first two elements of what constitutes 'a real team', but it is the stability of the group members that is often the hardest aspect to control. If you are based in a project-type environment then it is probable that team stability will last only as long as the project.
Instability within the team composition can also arise from the nature of the work. For example, managing within a call center environment is often plagued by a high rate of staff turnover due to the nature of the job and the fact that it often attracts transient individuals.
As a manager in this type of environment, you will be able to minimise the inevitable disruption of staff turnover by developing an induction program that quickly integrates new recruits into the team.

2: Compelling Direction

The second factor of this model is that of providing your team with a compelling direction. This means that you provide your team with *clear goals*, which are both challenging and consequential.
As a manager, whatever type of team you are responsible for, you have direct control over the goals you set your team. You can also ensure that you set SMART goals for your staff that motivate and reward them. SMART goals are *Specific*, *Measurable*, *Attainable*, *Relevant*, and *Time-Bound.*



These goals need to clearly state how the team contributes to the organisation so that the team is aware of their own contribution to the overall mission.

3: Enabling Structure

The structure that your team exists in is the third factor that Hackman cites as influential in making your team a success. Some of these aspects you will have control over, while others are going to be dictated by the type of organisation you are in and your role within it.
Where possible, offering your team *variety* in the tasks they must complete improves the team's success. Examples might include small changes in task assignment if you are managing a call center team, or keeping the size of your team at a manageable level so that they are not too large and become unwieldy. Sometimes you may want to make small sub-groups within a large team so that the qualities of successful teams can be nurtured.
Within your team's structure, you will also want to ensure that some of your key players have *good social skills*. This makes certain that persuasion and well-presented arguments rather than conflict form the basis for decision making within the team. These social skills will also ensure that behaviour is guided by strong norms.

4: Supportive Context

The fourth quality required to ensure successful teams is that of support. A supportive context is essential for companies and organisations, as they are made up of small groups which when combined form a larger group.
This *support framework* is made up of three elements: reward, development, and information.

- The *reward* must be linked to the performance of the group or team. This system must be based upon rewarding the group's performance and cooperation.
- The second element of the support must be the *development* of individual members' skills through an educational system. For many organisations, this educational system is formed around the Appraisal System, and as a manager, it is vital that you develop your skills in this area.

- The third supportive element is connected to the provision of *information* and guaranteeing easy access to this data and materials. Your ability as a manager to ensure your team has access to the information and materials they need to develop their own skills is crucial.

You can take advantage of the advances in communications technology (computers, notebooks, smartphones, etc.) and the internet. You will be able to guide your team to the best resources and information they require to develop their skills.

5: Expert Coaching

The final aspect of the Five Factor Model is that of *expert coaching and mentoring*. Through the annual appraisal system and your day-to-day management of the team, you are able to identify which members of your team require help with a task, or help those individuals develop their interpersonal skills.

Once this need has been identified, you *coach the person* in how they can best meet this challenge and develop the skills they lack. You must be conscious not to be too overbearing in your manner, as this can seriously undermine the effectiveness of the team. The latter is a criticism that Hackman draws attention to in his research and it will significantly reduce the success of any team.

Most teams you encounter in the working world are likely to exhibit a mix of Tuckman's Four Stages and Hackman's Five Factor Model in their day-to-day operations.

As a manager, it is useful to be able to identify the stage at which your group is operating and which of the five factors are present in your organisation. By understanding the group dynamics of your team in this way you are better able to adapt your leadership style and behaviours to suit your current team.

You will encounter teams that are an almost permanent fixture, but in which individual members may come and go. Your role in this instance is to ensure that any new members are integrated into the pre-existing team as quickly as possible. This enables the team to continue to operate most effectively.

Other teams are more temporary in nature, often set up for a specific project. Frequently this type of team will be made up of individuals who are familiar with and have a great deal of experience of working in teams. If you are managing this type of team you will facilitate the team to be a cohesive unit as they are likely to be very clear about each other's responsibilities. This means that the forming and storming stages will be more quickly resolved as the whole team is focused on its objective.

Conclusion

Over the last 40 years, dozens of leadership theories have been published by academics and management consultancies looking to create a proprietary leadership method. As a result, there is a huge body of work available on leadership and team development.

If you decide to study the available information on leadership, then you should do so knowing that most of what you read is simply a rehash of existing theories with some unique selling point or 'spin' grafted on in order to turn it into a saleable method.

In addition, most books on leadership can't resist the temptation to deal with this topic as if every manager really did have the potential to become the next Steve Jobs or Bill Gates. Whilst this might make for a thrilling read, it is usually quite difficult for you to apply any of the advice given unless you're on the board of directors or are working for a small organisation where you really do have a lot of influence and authority.

Team working provides a wide variety of benefits to organisations from bringing together diverse expertise to building a workplace community. This makes it very difficult to generalise about teams as even within the same organisation there will be teams that have very little in common.

The best management style for any particular team will be influenced by its purpose and composition. This means that you will have to think carefully about each piece of team building or team management advice that you encounter. You will need to ask yourself, under what conditions would this be helpful, be of limited use, or be completely inappropriate?

For you as a manager, the most important aspect of your leadership is deciding *how much freedom to give your team*. Too much, and they may not achieve their targets, too little, and you will restrict their personal development and job satisfaction which can cause problems with motivation and productivity.

There is no easy answer to this problem and the best course of action is to consider each case on its merits with a clear appreciation of the risks involved in giving too much autonomy.

GLOBAL GOVERNANCE

INTERNATIONAL POLITICS

Introduction

Welcome to International Politics!
This course deals with political systems, forms of government, political behaviour, and power. After this course, you will be able to examine a wide range of topics – from how laws get made to how political parties develop. Because power takes many forms, political science often overlaps with economics, psychology, sociology, and the other social sciences. The overall field of political science includes several major subfields. The most important fields are comparative politics, international relations, political economy, and political theory.

- *Political Theory* includes all political philosophies from Plato to the present. This subfield tries to answer questions about such abstract issues as ethics, the nature of liberty and freedom, and how governments should function.
- *Comparative Politics* compares systems of government in other countries. For example, a comparative political scientist might compare the political systems or constitutions of the USA and Brazil.
- *International Relations* scholars examine the ways in which nations interact. International relations focuses on how states relate to one another, such as why and how states trade, cooperate, and fight.
- *Political Economy* is the study of how economics and politics affect each other. Political scientists might look at the impact of economic power on international relations or how different economies develop within similar political systems.

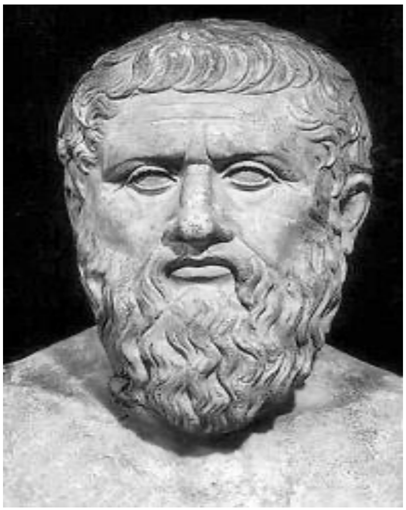
In this course, we will touch all of these major subfields to provide you with a solid overview.

Political Theory

For as long as humans have formed communities, people have debated and analysed *politics* – the way groups of people, particularly governments, reach agreements and make decisions that will affect society. In this chapter, we present the most important political theories from three different eras:

Ancient Times

In *Ancient Times*, the Greek philosophers Plato and Aristotle were two of the most influential political thinkers:



The philosopher *Plato* (427-347 BC) wrote numerous dialogues about politics, asking about the nature of justice, what constitutes good government, and what is truly best for humanity. As the first philosophical examination of "justice" in Western literature, he seeks to discover justice in the individual by defining justice in the state. In his famous writings The Republic, The Statesman, and The Laws he outlines the ideal state and explores "corrupt" or "deviant" regimes (timarchy, oligarchy, democracy, and tyranny) through an analysis of their leading symptoms.
While often denounced as an enemy of the "open society," Plato suggests that ruling is a kind of science or craft and concludes that only those trained in this craft should be permitted to govern. He introduces a new element – adherence to law – which becomes the basis for evaluating good and bad forms of regime types. Those regimes which follow the law are far better than those that do not. He also prefigures the famous "mixed" or "balanced" constitution, observing that democracy should be tempered with monarchy. Plato's political philosophy has been

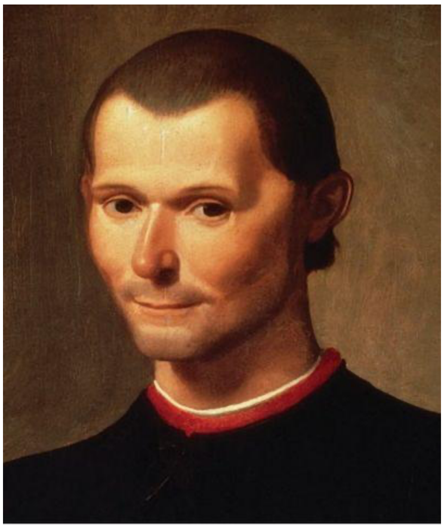
the subject of much criticism. He was highly critical of democracy and believed in an aristocracy ruled by philosopher-kings. However, Plato's interest in existing institutions and appreciation for imperfect regimes serves as a bridge to the more empirical and realistic politics of Aristotle.

Plato's student *Aristotle* (384-322 BC) worked in a more scientific way, observing and describing types of governments systematically. He declared in his work The Politics that "man is by nature a political animal."

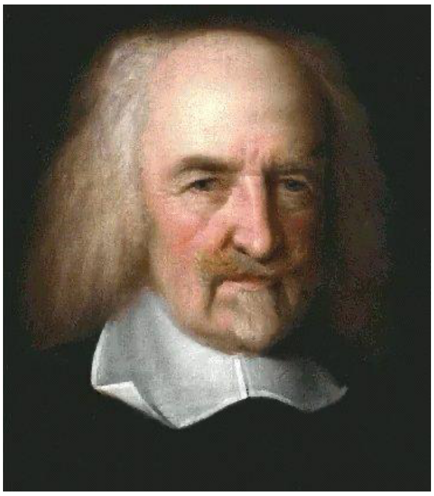
However, there is a tension between two forces which move us; the Greeks termed them ethos (morality) and kratos (power). Is doing the politically prudent thing compatible with doing the moral thing?
Aristotle, like Confucius much further east, believed in the continuity between moral character and political interests. He deemed politics as well as morality to be based on knowledge. While Aristotle's remarks on slavery, women, and labourers are often embarrassing to modern readers, his analysis of regime types (including the causes of their preservation and destruction) remains of perennial interest. His discussion of "polity"- a fusion of oligarchy and democracy – has been of particular significance in the history of popular government. Finally, his contention that a constitution is more than a set of political institutions, but also embodies a shared way of life, has proved a fruitful insight in the hands of other political thinkers.

European Enlightenment

During the *European Enlightenment,* philosophers like Niccolo Machiavelli, Thomas Hobbes, John Locke, Montesquieu, and Jean-Jacques Rousseau started to break away from tradition and forge new ways of understanding the world.



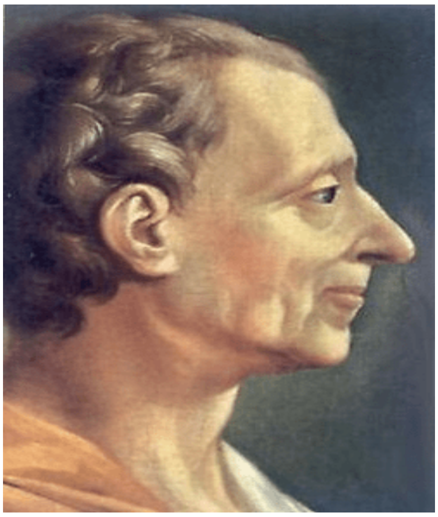
Niccolo Machiavelli (1469-1527) finally drove a wedge between the unequal siblings of politics and virtue: A statesman should only be concerned with being powerful, not with being kind or good. His work The Prince is at once the most famous and infamous work in the canon of political thought. Instead of considering questions of justice and the ideal state, Niccolo Machiavelli proposed to advise a "new" prince on how to successfully *maintain power*. Given the realities of human nature and politics, it is sometimes necessary for a prince to "do evil," including acts of violence and cruelty, in order to survive. For Machiavelli, the capacity for such acts is an essential part of a ruler's "skill set." Such stark realism has led many to denounce Machiavelli as an "advisor to tyrants" and a "teacher of evil." Others have defended the Prince for its author's realistic appraisal of politics and tough-minded advice for a dangerous world. This "little book" (as Machiavelli called it) will undoubtedly continue to provoke highly varied responses.



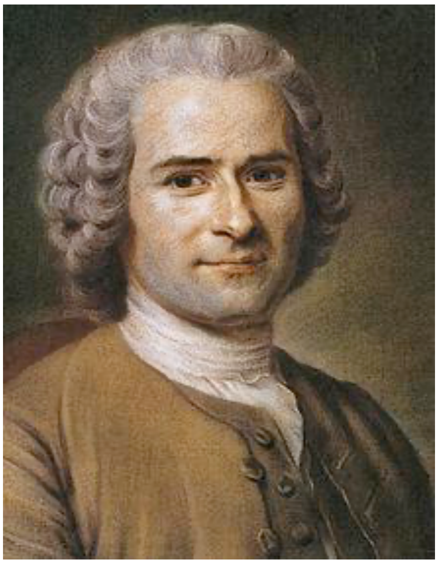
Best known as the "father" of modern absolutism, *Thomas Hobbes* (1588-1679) is also credited as the "father" of modern political science. In Leviathan, his principal work, the English philosopher endeavoured to establish a new "science of politics" on the basis of the first principles of human nature. While his conclusion — that without an all-powerful Sovereign life would be a "war of all against all" — was largely rejected by his contemporaries, his reliance on natural law inaugurated a new era in political thinking. His use of the "social contract" as a method of explaining the origin and legitimacy of public authority would be adopted to more liberal ends by thinkers such as Locke and Rousseau. Moreover, Hobbes's contention that men possess "natural" rights — that by nature individuals are free, equal, and autonomous — readily lent itself to theories of limited government.

For this reason, Hobbes is often identified, paradoxically, as the "father" of modern liberalism. In simple terms, Hobbes states that *man is evil*. Therefore, a government is needed to protect the public. The government should be all-powerful and the power should be centralised.

Few political thinkers have had such a profound and lasting influence as *John Locke* (1632-1704). His Second Treatise, written against the backdrop of political crisis and revolution, contains classic arguments against despotic government. Drawing on the tradition of natural law, Locke developed a theory of natural liberty that placed limits on civil authority. For Locke, government is founded in human need and arises from "inconveniences" in the "state of nature." Like Hobbes, he finds the origins of political authority in the "social contract," a voluntary agreement to enter into civil society. Unlike Hobbes, however, the sovereignty of the people is not permanently transferred to an absolute "Sovereign," but is temporarily delegated to a government of limited power. Locke also made important contributions to the concepts of equality, rule of law, separation of powers, majoritarianism, and the right to revolution. Along with its theory of (private) property, the Second Treatise remains the seminal text of classical liberalism. In simple terms, Locke states that *man is good*. However, a government is wanted to benefit the public. The government should be conditional and the power should be shared.



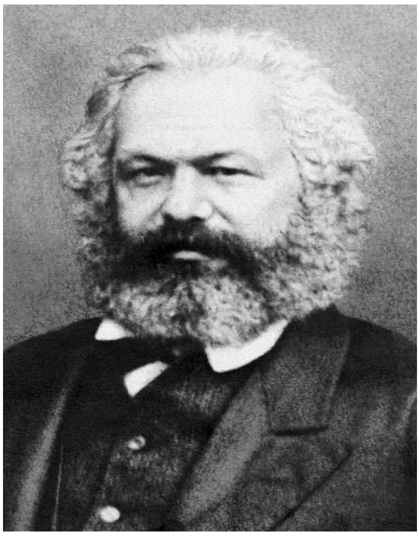
Baron de Montesquieu (1689-1755) focused on the relations between law, liberty, and government. His attention to the influence of social factors on law and government has led modern scholars to call him the "father" of sociology. He is best known for his discussion of the English constitution, his model of a modern free government. For Montesquieu, English liberty is the product of a **b***alanced constitution*, and specifically the separation of legislative and executive power. These reflections, as well as his observations on the conditions which support republics, would exercise a powerful influence on the American Founders, who appealed to Montesquieu — "that great man" — with considerable frequency.



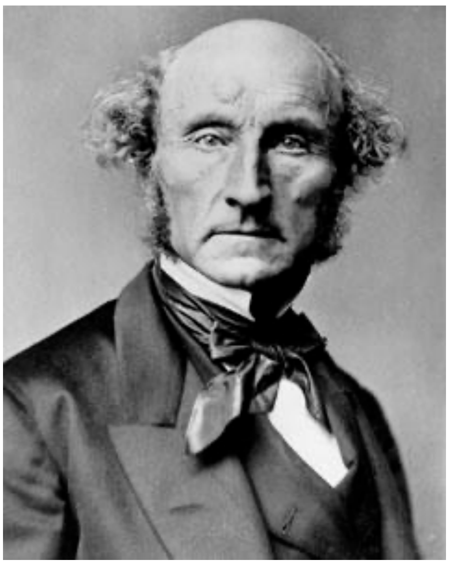
"Man was born free, and he is everywhere in chains." Thus begins the Social Contract, the principal work of *Jean-Jacques Rousseau* (1712-1778). Like Hobbes and Locke, Rousseau used the "social contract" to explain the origins of civil society, but in his version sovereignty is not transferred to the government, but remains with the people. In Rousseau's ideal republic, the *citizens legislate directly* in accordance with the "general will," the common good. To recognise this good, citizens must be trained in virtue. Only then will they be fit for self-government; only then will they be truly free. His model of a small city-state was out of step with the times, but his general ideas on liberty and democracy were highly influential.

Industrialisation and Modernity

As *Industrialisation* overtook Europe and the United States in the 19th century, socials theorists began to change their political approaches. The most significant modern thinkers include Karl Marx, John Stuart Mill, Max Weber, and John Rawls.

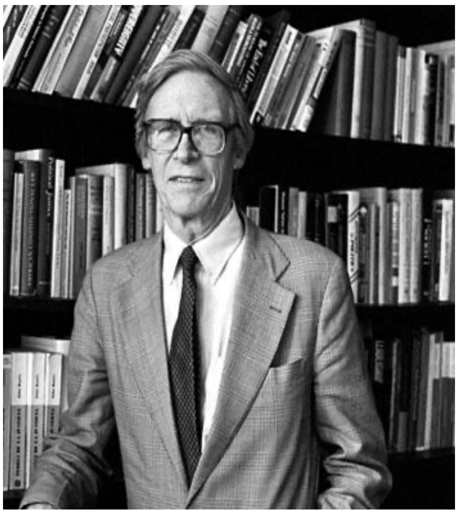


The theories of *Karl Marx* (1818-1883) about society, economics and politics – the collective understanding of which is known as Marxism – hold that human societies progress through *class struggle*: a conflict between an ownership class that controls production and a dispossessed labouring class that provides the labor for production. States, Marx believed, were run on behalf of the ruling class and in their interest while representing it as the common interest of all; and he predicted that, like previous socioeconomic systems, capitalism produced internal tensions which would lead to its self-destruction and replacement by a new system: socialism. Marx argued that class antagonisms under capitalism between the *bourgeoisie and proletariat* would eventuate in the working class' conquest of political power and eventually establish a classless society, communism, a society governed by a free association of producers. Marx actively fought for its implementation, arguing that the working class should carryout organised revolutionary action to topple capitalism and bring about socio-economic change. His books The Communist Manifesto and Capital spurred the Russian Revolution of 1917.



On Liberty of *John Stuart Mill* (1806-1873) remains the classic defence of individual freedom and the open society. For Mill, human happiness — the "greatest good" — is only possible in a free society where individuals are at liberty to make decisions about their lives. These decisions, including what to think, say, read, and write, should be free from state interference and left to the discretion of individuals. Believing that discussion, debate, and diversity were essential to the progress of society, Mill called for the widest degree of latitude for individual expression and even encouraged "experiments in living." Fostering individuality would, in turn, benefit society as a whole, because fewer people would feel restricted or marginalised. As long as people respect the rights of others, they should be allowed to think and live as they choose. Some beliefs and ways of living might be better than others, but it was not the proper role of the state to regulate such matters. Unlike classical liberals, Mill did not base his argument for liberty on natural right, but on utility or the "greatest happiness" principle. His strong defence of *individual liberty* and self-determination place him in the vanguard of liberal thinkers.

Economist and sociologist *Max Weber* (1864-1920) argued that *religion*, not economics, is the central force in social change. According to Weber, Protestants seeking an outward affirmation of their godliness brought about the birth of market-driven capitalism in the Western world. Against Marx's "historical materialism", Weber emphasised the importance of cultural influences embedded in religion as a means for understanding the genesis of capitalism. Weber defined the state as an entity that successfully claims a "monopoly of the legitimate use of physical force within a given territory". His analysis of *bureaucracy* emphasised that modern state institutions are increasingly based on rational-legal authority.



Professor *John Rawls* (1921-2002) was one of the most important political philosophers of the 20th century. His work in political philosophy takes as its starting point the argument that "the most reasonable principles of justice are those everyone would accept and agree to from a fair position". He argued that we should strive to develop a society based on *equality*.

Political Science

Throughout history, there have been many different systems of government. Political science is the attempt to study politics in a systematic way in order to learn how power works. As an academic discipline, political science is fairly new, but people have studied and discussed politics for thousands of years.

What is Political Science?

Political science is the systematic study of politics or the process by which governmental decisions are made. As a famous definition puts it, politics is *determining who gets what, where, when, and how.* The political scientist is an objective observer who asks questions about and studies the effects and structures of different systems of governments.

In the last few decades, political science has become more solidly established. Political professionals work on campaigns (as well as news shows) at all levels to help sway voters, and many elected officials analyse data to help make policy choices. Today, many political scientists use statistics and other quantitative methods to study a variety of issues.

Political scientists rely on several important concepts:

- *Power*: The ability to get others to do what you want. Power can take many forms, from brute force to articulate persuasion.
- *Government*: The organisation of power within a society, specifically how power is divided and used.
- *Regime*: The form of government or the set of rules, cultural or social norms, that regulate the operation of a government or institution and its interactions with society.
- *Legitimacy*: Occurs when citizens accept the political decisions made by the governing body. A government is considered legitimate if its citizens think it right, lawful, and proper that the government should hold power. A threat to legitimacy seriously undermines the power of the government.
- *Authority*: The ability of the government to exercise power without resorting to violence. A government with a high level of legitimacy tends to have a high level of authority. Its citizens usually obey the law because they think it is the right thing to do, not because they are afraid of punishment.
- *Sovereignty*: The right to exercise political power over a group of people or a geographical area. A government is considered sovereign if it has the final word on political decisions within its boundaries. When citizens can appeal to a higher body, the government is not sovereign. (Example: Regional governments have often a great deal of power, but ultimately they are not sovereign because the federal government can overrule them)

Types of Regimes

Political scientists refer to *regimes* using many different terms. In politics, a regime is the *form of government or the set of rules, cultural or social norms,* etc. that regulate the operation of a government or institution and its interactions with society. Which term political scientists use often depends on two factors: the number of people with political power and the amount of power the government itself exerts.

1. Number of people in power:

The first table below organises regimes by the number of people who hold political power.

Regime:	*Number of people in power*:	*Examples*:
Monarchy	One	Saudi Arabia, Jordan, medieval England
Dictatorship	One	North Korea, Nazi Germany
Aristocracy	A few (small ruling class)	Ancient Sparta
Oligarchy	A few (small group of wealthy individuals)	Renaissance Venice
Democracy	Many or all	USA, Germany, France, ancient Athens

A wide variety of regime types exist. For example, the United Kingdom has a constitutional monarchy, in which Queen Elizabeth holds a limited amount of power. Theoretically, the queen is the English head of state, but over time the English monarchy has become largely ceremonial. Real governmental power now rests with the Parliament, the legislative, lawmaking body. In contrast, the Third Reich of World War II was a totalitarian dictatorship. Adolf Hitler controlled the government and the citizens of Nazi Germany.

2. Amount of government power:

The second table organises regimes by the amount of power the government possesses.

Regime:	*Amount of power*:	*Examples*:
Totalitarian	Absolute power; controls every aspect of its citizens' lives	Soviet Union, North Korea, Nazi Germany

Autocratic	Regime controls most aspects of its citizens' lives; often associated with a single ruler.	Iraq before 2003
Authoritarian	Regime controls most aspects of its citizens' lives; regime often outlasts its rulers.	China, Egypt
Constitutional	Limited by specific rules, such as the citizens' right to free speech or freedom of religion.	United States, United Kingdom, Germany, Japan
Anarchist	No power, or simply no government; can occur when a government loses its power.	Somalia

Democracy

The word democracy comes from the Greek words *demos*, which means "the people," and *cracy*, which means "rule by." Today, we call a regime a democracy when many or all of its people share political power. There are two main types of democracies:

Direct democracy: Citizens make all the decisions. They gather frequently to vote on laws, regulations, and appointments. There are no elected representatives. Direct democracy was common in ancient Greece; today, it exists at a local level in town hall meetings held throughout the United States.

Representative democracy: Citizens elect officials to act on their behalf. If the officeholders disappoint or anger them, the citizens can choose new officials at the next election. A regime that runs by representative democracy is known as a republic. In a republic, citizens hold the power. There are two sub-types of representative democracies:

- *Parliamentary democracy*: Citizens elect officials to act as legislators. The legislature then elects the executive (frequently called the prime minister) from its members. Many European democracies use a parliamentary system. One advantage of this type of democracy is its ability to quickly respond to public opinion. If the prime minister loses the confidence of voters, new elections can be held immediately. But parliamentary governments can be unstable. Perhaps the classic example is Italy, which changed governments about once a year for fifty years following World War II.
- *Presidential democracy*: Citizens elect the legislators and executive separately. No one can be both a legislator and the executive at the same time. The United States is a presidential democracy. Although a presidential system can be slow to respond to changes in public opinion, it is likely to be more stable than a parliamentary system.

Strengths and Weaknesses

Direct Democracy	*Representative Democracy*
Strength: Purest democratic form of government because the people literally rule.	*Strength*: Can take place in a much larger country; grants citizens much more time to pursue private interests.
Weakness: Difficult to form except in small communities; demands constant attention from its citizens.	*Weakness*: Can be slow to respond to public opinion; sometimes defies public opinion.

Key Features of a Democracy

All democracies, in theory, should provide four things:

- *Security*: Like all governments, a democracy should protect its citizens from danger and threats, both national and abroad.
- *Liberty*: A democracy bestows on its citizens the right to do certain things without interference. The most common liberties are freedom of speech, thought, religion, and assembly. Most democratic governments are limited—that is, there are fundamental rights that the government cannot take from its citizens.
- *Political Equality:* All citizens should be treated the same way. Each person gets one vote in elections, and the law is the same for all people.
- *Popular Sovereignty:* In a democracy, supreme power rests with the people. The people choose their government, and the people can change the government when they see fit. In return, the government should do what the people want.

In reality, these features do not always fit together well, and democracies must work to create a balance. But the balance changes as the people decide they want to emphasise one feature over another. Sometimes strengthening one feature causes another feature to decrease or to disappear. Since the attacks of September 11, 2001, Americans (who traditionally tend to value liberty more than anything else) have become more concerned with issues of security. In response, the government has increased security by limiting some freedoms—making it easier for the government to investigate its citizens, for instance.

Power and Legitimacy

Where does political power come from? Political scientists have developed two models to explain the source of political power:

Percolation-Up Model	Political power rests with the citizens. In turn, citizens grant political power to their leaders through elections. This view appeals to our democratic sensibilities. However, throughout most of human history strong and stable governments ignored their citizens.
Drip-Down Model	Political power rests with the leaders, who organise society and impose order. Nevertheless, citizens retain the power to overthrow the government by electing new leaders.

Political scientists use both of these views in different circumstances. Sometimes change happens in a society because of a genuine grassroots effort. In other cases, government leaders create a policy and impose it on the people. And sometimes both happen.

The civil rights movement in the United States had elements of both percolation-up and drip-down models of power. Much of the original push for the movement came from African Americans, who were angry about their status as second-class citizens. They organised and staged a variety of protests to bring about change—an example of the percolation-up model in action. After it became apparent that many state governments (especially, but not only, in the South) would resist giving African Americans equal rights, the federal government began asserting its power to enforce laws and court decisions—an example of the drip-down model in action.

Political Legitimacy

All governments need legitimacy to survive. But how do governments attain authority? What makes citizens obey or feel loyal toward their governments? Political scientists have answered these questions by concluding that political legitimacy comes from several sources:

- *Tradition*: The government has authority because its citizens have a long tradition of giving it authority and respect. This source mostly comes into play with governments that have been around for a long time.
- *Habit*: Most people are raised to obey the laws, and they thereby acquire the habit of obeying. Citizens give their government legitimacy and authority because that is what they have always done.
- *History*: People remember great deeds and events in the country's history, and they obey the government out of a sense of historical pride.
- *Religion*: In some places, obedience to the government is seen as a religious obligation. (Example: Iran is a constitutional Islamic republic. Some of its governing bodies are elected, whereas others are put into place for religious reasons.)
- *Ethnic identity*: Countries composed of exclusively one ethnic group or whose regime is strongly connected to one ethnic group can inspire obedience through ethnic identity. Members of that ethnic group respect the government because of its link to their ethnicity. (Example: Saddam Hussein's Sunni regime in Iraq once inspired a great deal of loyalty in Sunni Arabs.)
- *Results*: If a government succeeds in some way—for instance, through a military victory or a thriving economy—citizens may feel loyalty because of that success.
- *Elections*: A government that holds elections gains legitimacy because citizens believe that the government, composed of elected officials, represents them.
- *International recognition*: A government gains legitimacy when other governments recognise it and welcome it to the international community. (Example: Taiwan still has not received formal recognition as a nation-state to this day by most countries.)

Political Ideologies

An *ideology* is a set of beliefs that affects our outlook on the world. These beliefs are often so close to us that we do not realise that they are there. Over the millennia, political philosophers have expounded on a variety of political ideologies. Today, we generally talk about *six major political ideologies:*

Anarchism

The belief that the best government is absolutely no government is known as anarchism. This ideology argues that everything about governments is repressive and therefore must be abolished entirely. A related ideology known as nihilism emphasises that everything—both government and society—must be periodically destroyed in order to start anew. Nihilists often categorically reject traditional concepts of morality in favour of violence and terror. Anarchism and nihilism were once associated with socialism because many anarchists and nihilists supported the

socialists’ call for revolution and the complete overhaul of government and society in the early to mid-twentieth century.
Russia has had a long association with anarchism and nihilism. Many prominent members of both movements were Russian, including Mikhail Bakunin, considered the father of anarchism. Russian nihilists engaged in a number of terrorist attacks in the late nineteenth and early twentieth centuries, including the assassination of Czar Alexander II in 1881.

Anarchism is an anti-authoritarian political philosophy that advocates self-governed societies based on voluntary, cooperative institutions and the rejection of hierarchies those societies view as unjust. These institutions are often described as stateless societies, although several authors have defined them more specifically as distinct institutions based on non-hierarchical or free associations. Anarchism holds the state to be undesirable, unnecessary and harmful.

Absolutism

Much of Western civilisation’s history was dominated by absolutism, the belief that a single ruler should have control over every aspect of the government and of the people’s lives. Absolute rulers had a variety of titles, including chieftain, king, shah, pharaoh, emperor, sultan, and prince. In some cultures, the absolute ruler was seen as a god in human form. Other peoples believed that their ruler had the divine right of kings, meaning that God had chosen the ruler to govern the rest. As a result, many cultures with absolute rulers practiced some form of caesaropapism, the belief that the ruler is head of both the governmental authority and the religious authority.
A number of political philosophers have advocated absolutism. The Greek philosopher Plato, for example, firmly believed that the best government would be run by a benevolent absolute ruler who would have the people’s best interests at heart. English philosopher Thomas Hobbes, meanwhile, was perhaps the most persuasive proponent of absolutism. He argued that life without governments was “nasty, brutish, and short” and that people must willingly submit to absolute rulers—even tyrannical ones—in order to live longer, more stable lives.

Absolute monarchy is a form of monarchy in which the monarch holds supreme authority and where that authority is not restricted by any written laws, legislature, or customs. In contrast, in constitutional monarchies, the head of state’s authority derives from and is legally bounded or restricted by a constitution or legislature.
Absolutist beliefs:

- A strong sense of order: Everything should be carefully structured, including society. Disorder and chaos are generally considered to be dangerous.
- A clear-cut law of nature (or law of God): This law must be obeyed. According to this law, some people are inherently better than others. A natural hierarchy (a power structure in which some people have authority over others) exists. Therefore, the superior should rule the inferior. This general view is called elitism, or elite theory.
- The wisdom of traditional values and institutions: New ideas are considered dangerous to the order of things.

Liberalism

In the early modern age of the Western world, a number of changes occurred that led to new ideologies: The European discovery of the Americas, the rise of Protestantism, the beginnings of the free-market economy, and the early stages of the scientific revolution fundamentally altered Europe. People began developing different ways of thinking to take account of these changes.
Perhaps the most important of the new ideas is liberalism (also known as classical liberalism), which began in England in the 1600s. Classical liberalism developed when such thinkers as John Locke rethought the relationship between the individual and society, as well theorised about the rights and responsibilities of the individual. These ideas formed the foundation for many political systems still operating today.
Liberal beliefs:

- Individualism: The individual takes priority over society.
- Freedom: Individuals have the right to make choices for themselves. This freedom is not absolute, and some behaviours, such as murder, are prohibited. Freedom of religion is a particularly important freedom to come out of liberalism because so many governments at the time were very closely tied to a particular religious creed.
- Equality: No person is morally or politically superior to others. Hierarchies are rejected.
- Rationalism: Humans are capable of thinking logically and rationally. Logic and reason help us solve problems.
- Progress: Traditions should not be kept unless they have value. New ideas are helpful because they can lead to progress in the sciences, the economy, and society.

- The free market: Liberalism and capitalism go hand in hand. Liberals like the free market because it more easily creates wealth, as opposed to traditional economies, which often have extensive regulations and limits on which occupations people can hold.

These basic characteristics of liberalism have led liberals to argue in favour of a limited government, which draws its power from the people. In practice, this has meant favouring a democratic government.
Classical liberalism has profoundly influenced the modern world, so much so that we do not even realise how controversial its ideas were in early modern Europe. Back then, liberal ideas were considered dangerous and inflammatory by traditional European governments, and liberals were frequently persecuted. Even after liberalism took hold in England, the rest of Europe was hostile to liberal ideas for another century (and even longer in some cases).

Liberalism is a political and moral philosophy based on liberty and equal rights. Liberals espouse a wide array of views depending on their understanding of these principles, but they generally support limited government, individual rights (including civil rights and human rights), capitalism (free markets), democracy, secularism, gender equality, racial equality, internationalism, freedom of speech, freedom of the press and freedom of religion.

Conservatism

Conservatism (also known as *classical conservatism*) began as a reaction against the liberal ideas taking hold of Europe during the French Revolution in the late eighteenth century. Edmund Burke, a British member of Parliament, observed the early stages of the French Revolution with great distress and predicted the violence and terror that would ensue. Burke and other conservatives attacked liberalism for many reasons. They argued that liberalism destroyed tradition. In its rush to overturn the old and bring in the new, liberalism and capitalism ruthlessly attacked traditional institutions and beliefs.
*Conservative beliefs***:**

- *Stability*: Stability is a precious thing, and change must be made gradually in order to preserve it. Undermining stability is very dangerous because societies can easily fall into chaos and violence. Classical liberals frequently called for revolution, which opens the door to great turbulence, according to the classical conservative view.
- *Concreteness*: Liberalism is too abstract. It focuses on freedom and equality, not on the concrete way people live every day.
- *Human fallibility:* Liberalism overestimates human beings. Humans are frequently ignorant, prejudiced, and irrational. By ignoring these defects, liberalism becomes unrealistic.
- *Unique circumstances*: There is no universal answer to the problems of society; the circumstances are unique in each country.

Many early conservatives favoured authoritarian government. In the aftermath of the Napoleonic Wars (roughly 1792–1815), for example, most European governments actively worked to stop the spread of liberalism and democracy. Nevertheless, conservatives were not necessarily hostile to democracy. Generally, these conservatives argued that some sort of monarchy was necessary, but some were more open to popular government. Burke, in particular, thought that limited democracy was a good form of government for England, as long as it maintained the customs and mores it inherited from its predecessors.

Conservatism is a political and social philosophy promoting traditional social institutions in the context of culture and civilisation. The central tenets of conservatism include tradition, hierarchy, authority, and property rights.[1] Conservatives seek to preserve a range of institutions such as religion, parliamentary government, and property rights, with the aim of emphasising social stability and continuity.

Liberals believe that tradition is only valuable if it serves a purpose and we should not be afraid to overturn tradition. Freedom is essential for human flourishing and all people are free to do as they please as long as they do not hurt others. The free market is valuable because it unleashes tremendous economic growth and efficiency.
Conservatives, on the other hand, believe that tradition is a collection of best knowledge from many years of practice. Excessive freedom is bad because it lets people ignore societal responsibilities and overlook social customs. A free market can also be dangerous since it breaks down traditional economic roles.

Socialism

Socialism arose as a response to the Industrial Revolution, which was the emergence of technologies such as the steam engine and mass production. The Industrial Revolution started in England in the last years of the eighteenth

century and had spread to much of Europe and America by the end of the nineteenth century. It caused major upheavals: In a very short time, many people were forced to abandon agricultural ways of life for the modern mechanised world of factories. Karl Marx is the best-known theorist of socialism. Along with Friedrich Engels, Marx wrote The Communist Manifesto (1848) as a call to revolution.
Socialist beliefs:

- Collectivism: Human beings are social by nature, and society should respect this. Individualism is poisonous.
- Public ownership: Society, not individuals, should own the property.
- Central economic planning: The government plans the economy; there is no free market.
- Economic equality: All citizens have roughly the same level of prosperity.

According to socialists, liberalism fails to live up to its promises of freedom and equality. Socialists blame the free market for liberalism's failings. Under a capitalist system, money and means of production are the measures of power. The haves (the bourgeoisie, in Marx's terms) and the have-nots (whom Marx calls the proletariat) are locked into a fight that Marx called class warfare. Because they control the money and means of production, the bourgeoisie has the power and thus are winning the fight. The rich use the government to further their control and to increase their power over the lower, poorer classes, so people are neither free nor equal.
Socialism is a range of economic and social systems characterised by social ownership of the means of production and workers' self-management, as well as the political theories and movements associated with them. There are many varieties of socialism and there is no single definition encapsulating all of them, with social ownership being the common element shared by its various forms.
Socialism evolved in a variety of ways. Communism and democratic socialism are the two most prominent evolutions of socialism.
Communism is an authoritarian and revolutionary approach to achieving socialism. As an ideology, communism emphasises a classless society in which all members jointly share the means and output of production. The regimes of the Soviet Union and communist China embody this ideology. Communists such as Vladimir Lenin, who became the first premier of the Soviet Union in 1917, argued that people can and must make the transition to socialism quickly rather than waiting for it to evolve. Authoritarian and violent measures are often required because the defenders of capitalism will fight ferociously to stop socialism from coming into being. With the fall of communist regimes in Russia and Eastern Europe, communism has been in retreat for most of the 1990s and 2000s. But there are still several major communist regimes, including the governments of North Korea and Cuba.
Democratic socialism is a peaceful and democratic approach to achieving socialism. As an ideology, democratic socialism also emphasises a classless society in which all members jointly share the means and output of production. But unlike communism, democratic socialism attempts to achieve its goals peacefully via the democratic processes. Democratic socialists reject the need for immediate transition to socialism in favour of a gradualist approach, achieved by working within a democratic government. Economic inequalities should be remedied through a welfare state, a system that provides aid to the poor and help to the unemployed. Democratic socialism has been quite successful in western Europe and Scandinavia. Many governments there have extensive welfare systems that have remained largely intact even when democratic socialists are voted out of office. Germany's Social Democratic Party, the French Socialist Party, and Britain's Labor Party are contemporary examples of successful political parties heavily influenced by democratic socialism.

Nationalism

Nationalism, a strong belief that one's nation is great (and, usually, better than others), also arose during the modern era. In the eighteenth and nineteenth centuries, nationalism emerged as a powerful force that caused a number of revolutions. People began to identify with and take pride in their particular nation-state. The French Revolution and the subsequent Napoleonic Wars helped spread nationalism throughout Europe because many nations rallied together to defeat Napoleon.
Nationalists believe that being a member of a particular nation is wonderful and worthy of celebration. For example, one should honour one's "Frenchness" if from France or "Americanness" if from the United States. This belief is not tied to any one political system. Nationalists favour behaviour, governmental systems, and other values or behaviours that promote a strong nation, including a powerful economy, a strong military, and unity among citizens. Threats to the nation are taken very seriously and need to be addressed. Historically, there have been many authoritarian regimes, in which governments may do whatever they want, that were strongly nationalist in character, but there are plenty of democratic nationalist states as well. The means of promoting a strong nation vary greatly from one nationalist state to another.

Nationalism is a political, social, and economic ideology and movement characterised by the promotion of the interests of a particular nation. It further aims to build and maintain a single national identity – based on shared social characteristics such as culture, language, religion, politics, and belief in a shared singular history.

Nations and States

Like an ideology, our nationality frequently determines how we behave and how we view politics. For much of the last 500 years, the nation-state has been the dominant political unit. But nation-states did not always exist. Other political forms dominated the world for most of world history.

Nations and States

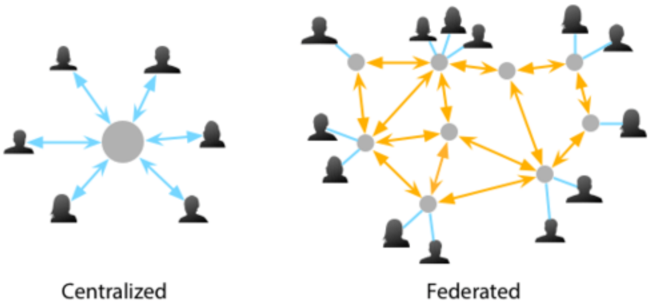
A *nation* is a large *group of people who are linked by similar culture, language, and history*. Members of some nations share an ethnicity, whereas other nations consist of ethnically diverse groups of people. However, the members of a nation see themselves as connected. Many members of a nation take pride in being a part of something bigger than themselves as individuals, and they celebrate their nation.
People disagree about what counts as a nation. Nationhood sometimes transcends geographical boundaries. Some groups consider themselves to be nations, even though much of the world does not consider them that way. Kurds, for example, live in Turkey, Iraq, and Iran, but many Kurds believe they belong to a Kurdish nation. In the end, determining what constitutes a nation is somewhat subjective. To put it crudely, the moment that an ethnic group starts to view itself as a nation, it becomes a nation. The Kurdish people, for example, became a nation when they started thinking of themselves as an ethnic group with a common language, history, and culture.

A *state* is a *political unit that has sovereignty over a particular piece of land*. Sovereignty is the ultimate power within a territory. So the state has the power to make laws, defend its borders, and enact policies. The state also exercises a monopoly on the legitimate use of force: No group within its borders can use force legally without the permission of the state. Political scientists use the word state as a synonym for sovereign governments.
A state is the ultimate authority within a territory. Smaller political units—such as city governments—exist within a state, but ultimately the supreme power rests with the state. The government of the city of London, for example, has some power to enforce rules within Greater London. However, these governments do not have the final say: Local governments are not sovereign because they are subordinate to the government of Great Britain and must abide by the government's rules.
Political scientists use the term *nation-state* to refer to modern countries and their political apparatuses. A nation-state is a *state that rules over a single nation.* France, for example, is a nation-state, as is Japan. The people in both countries overwhelmingly share a common language, history, and culture. The term nation-state reflects the situation in which the boundaries of a state coincide with the geographical area occupied by a nation.
In many nation-states, the government actively promotes the idea of common nationality. Children learn the same language and history in state-sponsored schools, and public events frequently invoke cultural heroes and icons. Citizens are often encouraged to work for the betterment of the nation. These practices, among others, are known collectively as nation-building. Foreign governments also participate in nation-building. Sometimes a government will give money and advice to another country to help nation-building.

Rise of the Nation-State

The nation-state developed fairly recently. Prior to the 1500s, in Europe, the nation-state as we know it did not exist. Back then, most people did not consider themselves part of a nation; they rarely left their village and knew little of the larger world. If anything, people were more likely to identify themselves with their region or local lord. At the same time, the rulers of states frequently had little control over their countries. Instead, local feudal lords had a great deal of power, and kings often had to depend on the goodwill of their subordinates to rule. Laws and practices varied a great deal from one part of the country to another.
In the early modern era, a number of monarchs began to consolidate power by weakening the feudal nobles and allying themselves with the emerging commercial classes. This difficult process sometimes required violence. The consolidation of power also took a long time. Kings and queens worked to bring all the people of their territories under unified rule. Not surprisingly, then, the birth of the nation-state also saw the first rumblings of nationalism, as monarchs encouraged their subjects to feel loyalty toward the newly established nations. The modern, integrated nation-state became clearly established in most of Europe during the nineteenth century.
The Thirty Years' War, fought throughout central Europe from 1618–1648 between Protestants and Catholics, laid the legal foundation for the nation-state. The war involved many nations of Europe, including many small German states, the Austrian Empire, Sweden, France, and Spain. Despite a brutal war, the Catholics were unable to overturn Protestantism. The treaty that ended the war, called the Peace of Westphalia, decreed that the sovereign ruler of a state had power over all elements of both the nation and the state, including religion. Thus, the modern idea of a sovereign state was born.

Centralisation, or the process by which law- and policy-making become centrally located, helped spur the development of nation-states. Final power rested with the central government, which made the laws and practices more uniform across the country.



A single centralised authority, rather than many diverse local authorities, allowed nation-states to quickly develop their economies. Merchants could trade throughout the nation without worrying about local taxes and regulations. Also, the nation-state was much stronger militarily than the feudal state. Rulers were able to create national armies, which were not dependent on the nobility. The armies could receive consistent training so that all units could work well together. In many cases, the newly emerging nation-states dominated the older forms of political organisation.

Napoleon Bonaparte was a key figure in the development of the nation-state. Amid the chaos of the French Revolution in the late eighteenth century, most remaining medieval and feudal laws were overturned and a truly national law code was established. Similarly, a national military was created. Although not the only reason, France's status as a nation-state was a key factor in its ability to dominate feudal neighbours in Italy and Germany. Napoleon's military victories also paved the way for the emergence of nation-states in the rest of Europe: In many places, the people rallied together as a nation in order to defeat Napoleon.

Constitutions

Every country has a constitution of some sort that outlines the government's structure. A constitution is simply the set of rules that govern how power is distributed and exercised. In other words, these rules structure the government of a state. Without such a set of rules, the state could not function and anarchy would reign. Although no constitution can cover every possible question or issue, all states need to spell out at least the fundamental matters of the distribution and use of power.

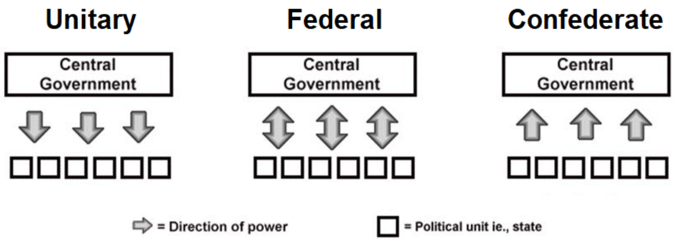
Some constitutions – such as that of the United States or the Basic Law of Germany – are codified into written documents. In other states, such as the United Kingdom, the constitution consists of many documents, laws, court rulings, and traditional practices that have never been compiled into a single document. But in every case, custom, history, and tradition play an important role.

Strong constitutions share three characteristics, or principles, of constitution design:

- *Attentive to tradition*: People prefer rules that resemble past rules. They are unlikely to follow a new set of rules if it differs widely from what they are used to doing. This principle holds particularly true for customs that have existed for a long time.
- *Open to change*: A constitution should be amendable. Although it should not be too easy to change, making a constitution too rigid may straitjacket future leaders, who may deal with dramatically different circumstances.
- **A** *harness to personal ambition:* In a good government, the leaders have a strong incentive to prioritise the country over personal ambition. A good, strong constitution creates a situation in which the leaders' ambition leads them to work for the public good, not for personal gain. Without such incentives, rulers, elected or otherwise, may very well ignore the public good.

Although these three principles of constitutional design help ensure solid governmental structures, ultimately they are merely guidelines. Some successful constitutions do not include them, and a number of states have succeeded in imposing governments that differ greatly from tradition. Unfortunately, any radical departures from tradition or history usually require violence.
Some constitutions are short documents. The U.S. Constitution, for example, covers only a few pages. Others are lengthy. The Basic Law of Germany, for example, is roughly five times as long as the U.S. Constitution. As a general rule, older constitutions are shorter than newer constitutions.

Systems of Government
A *system of government* distributes power among different parts and levels of the state. Political scientists study the uses of power, including how power is distributed within a state. The amount of power held by the central government determines the system of government a state has. There are three main systems of government used today: unitary systems, federal systems, and confederate systems.



Unitary Systems
A *unitary system* has the highest degree of centralisation. In a unitary state, the central government holds all the power. Lower-level governments, if they exist at all, do nothing but implement the policies of the national government. In a purely unitary state, the same set of laws applies throughout the nation, without variation.
Unitary states create national policy, which is then applied uniformly. This uniformity sometimes serves as an advantage because people and businesses know exactly what to expect from the laws, regardless of geographical location. At the same time, to maintain its uniformity, a unitary government must overlook local differences that might call for different rules or policies. In France, for example, the central government makes virtually all of the decisions. China, Japan, and the United Kingdom are other examples.
Federal Systems
A *federal system* has a mix of national and state or local governments. The federal government usually trumps local governments in matters of defence and foreign policy, but local governments have a great deal of say over most other policy areas. Sometimes local governments administer national policies, which means that, in practice, the "national" policy varies a great deal from place to place.
Often, the boundary between national and local power is blurred. Federal systems have the opposite strengths and weaknesses of unitary systems: They excel at factoring in local circumstances but often fail to have a coherent national policy. The United States, Germany, and Canada operate under federal systems. These states have a mix of national and state governments that share power and policymaking responsibilities.
Confederate Systems
A *confederate system* sits at the other extreme in terms of centralisation. A confederacy is a loose relationship among a number of smaller political units. The vast majority of political power rests with the local governments; the central federal government has very little power. Local governments have a great deal of freedom to act as they wish, but this freedom often leads to conflicts between states and the federal government. In some cases, a confederacy is little more than an alliance between independent states. Today, Belgium is basically a confederacy between two largely independent states, Flanders in the north and Wallonia in the south.

The Future of Nation-States

Although the nation-state has been the predominant unit of political organisation for most of the last few centuries, its future is uncertain. Two trends point to the nation-state as receding in importance, but these trends sometimes contradict each other.

The first major trend is globalisation. Over the last few decades, national boundaries have broken down in a variety of ways, including economically. In today's truly global economy, money and goods travel across borders in huge quantities and at great speed. Many corporations build parts in a variety of countries, then assemble them in yet another country. Most goods are no longer "made in America," for example, because much of the manufacturing often happens in other places, whereas final assembly occurs in the United States. The rapid growth of international investing has further globalised the economy. Globalisation often leads to transnationalism, so should this globalising trend continue, the nation-state might give way to the transnational government.

Transnationalism has occurred at the political level. International organisations, such as the United Nations and the World Trade Organisation, play an ever-increasing role on the political stage, and nations join them for such benefits as military protection and economic security. In the case of the European Union, national boundaries have very little meaning. All citizens can travel, live, and work freely throughout the European Union, and all internal tariffs and trade restrictions have been abolished. Some residents see themselves as citizens of a new European Union nation, not of their smaller countries. Transnational governments and groups literally transcend geographical and political boundaries.

The second trend that marks the recession of nation-states concerns the increase in political power being given to local governments, sometimes to the point of autonomy. This trend is sometimes called devolution because states are said to devolve power back to local governments. In the United Kingdom, for example, Scotland has been granted a great deal of autonomy, as has Catalonia in Spain. Should this trend continue, local governments would replace national or central governments.

Accompanying devolution has been sub-nationalism – an increased identification with and interest in subnational groups. The prefix sub means "below" or "beneath," so the term subnational indicates a smaller division of a larger national group. Many people are working to preserve the language, culture, and history of subnational groups. Some in France, for example, are learning to speak Breton, a language that had largely disappeared. In a number of countries, local dialects that were suppressed under dictatorial governments have reemerged after a transition to a more democratic government.

The future of nation-states is unclear. As trends, globalisation and devolution contradict each other, so it seems unlikely that both will continue in significant ways. On the one hand, if globalisation continues, then transnational governments or allegiances such as the European Union may eventually replace traditional nation-states. On the other hand, if devolution continues, powerful regional governments and subnational groups may come to dominate the political landscape. Then again, the nation-state has proven itself to be very durable throughout history. As the cliché goes, time will tell what the future holds for the nation-state.

Political Culture and Public Opinion

Different nations have different languages, faiths, ethnicities, traditions, histories, and world views. As a result, the government created by each nation is distinct and unique. Countries may create similar governments but no two political systems are exactly identical.

What Is Political Culture?

Political culture is a set of attitudes and practices held by a people that shapes their political behaviour. It includes moral judgments, political myths, beliefs, and ideas about what makes for a good society. Political culture is a reflection of a government, but it also incorporates elements of history and tradition that may predate the current regime.

Political cultures matter because they shape a population's political perceptions and actions. Governments can help shape political culture and public opinion through education, public events, and commemoration of the past.

Political cultures vary greatly from state to state and sometimes even within a state. The United States and Great Britain, for example, are both democracies, but each has a distinct political culture.

Political culture changes over time, but these changes often happen slowly. People frequently become set in their ways and refuse to alter their attitudes on significant issues. Sometimes it can take generations for major shifts to occur in a nation's political culture.

Citizenship:

Political culture is connected to notions of citizenship because political culture frequently includes an idea of what makes people good citizens. A citizen is a legal member of a political community, with certain rights and obligations. Because each country has its own requirements for citizenship and attendant rights, the definition of "citizen" varies around the world. Not surprisingly, different countries have different criteria for citizenship. France automatically bestows citizenship on anyone born in French territory via jus soli (Latin for "right by territory"). Germany grants citizenship via jus sanguines (Latin for "right by blood") to people who have a German parent. Israel's Law of Return, meanwhile, allows any Jew to move permanently to Israel and become a citizen. The United States grants citizenship rights both to people who are born in American territory and to people who have an American parent.

Aristotle and Citizenship:

The Greek philosopher Aristotle was probably the first person to puzzle over what makes someone a citizen. He reasoned that living in a particular place does not automatically make a person a citizen because, in his day (as in ours) resident aliens and immigrants often lived in a country without becoming citizens. In the end, Aristotle defined a citizen as one who shares in the offices and power of a regime (even if only in a small way). So, a tyranny has one citizen, whereas a democracy has many citizens.

Characteristics of Good Citizens:

A good citizen lives up to the ideals of the regime and embodies much of what a particular political culture considers important. Someone who lives an exemplary life but who does not work to help the community will probably be viewed as a good person but not as a good citizen. Instead, people expect good citizens to help others and to make the community a better place through active participation in public life. A good citizen is often expected to vote in elections, to obey all laws, to be informed about political issues, to volunteer to help less fortunate people, and to help the community when needed.

Political Socialisation

People acquire political culture through a process known as political socialisation. Although the bulk of political socialisation occurs during childhood, adults continue to be socialised. Political socialisation occurs in many ways:

- Family: Young children usually spend far more time with their families than with anyone else and thus tend to acquire the family's habits, beliefs, behaviours, and attitudes. For this reason, the family tends to be the most important source of political socialisation. Families mostly impart political culture unintentionally by acting as examples for the children. Very often, people end up with political beliefs similar to those of their parents.
- School: Most children learn about their country at school, usually through a curriculum known as civic education. This curriculum trains young people to be good citizens, often via history, government, and social studies. Although these lessons are usually basic, many of the key ideas and values of a society are imparted through school.
- Peers: At all ages, friends and acquaintances will influence one's beliefs.
- Religion: Different religious traditions have very different values, and one's faith often significantly influences one's political views.
- Social and economic class: The social class to which one belongs shapes one's views.
- Minority status: Members of a minority group sometimes feel like outsiders, and this feeling of isolation and alienation affects their attitudes toward society and government. This is particularly true when the minority group is treated either better or worse than others in society.
- Media: The power of media is increasing with the spread of 24-hour cable news networks, talk radio, the Internet, and the seeming omnipresence of personal audio and video devices, so the influence of the media on political socialisation is no longer confined to the young.
- Key events: A major political event can shape an entire generation's attitudes toward its nation and government. World War II, for example, defined the attitudes of many people around the world.

The government plays a role in political socialisation in a variety of ways. It determines the policies and curricula, including what books students may read, for public schools. The government also regulates the media, which affects what we see and hear. In authoritarian and totalitarian regimes, the government often takes active measures to inculcate loyalty, especially in younger people. The Nazis, for example, created the Hitler Youth, which instilled allegiance to Adolf Hitler in young people in Germany during the Third Reich. Similar programs existed in the former Soviet Union.

Plato writes about the creation of a good aristocratic regime. But most of the work describes the educational system and discusses what will be taught to the young. This emphasis shows Plato's understanding of the importance of socialisation: He argued that raising a generation indoctrinated with the values of the regime was essential to the regime's survival. In fact, Plato even claims that, in order for the good republic to succeed, the city founders must expel everyone over the age of ten because their attitudes have already been shaped and cannot be changed.

Social capital is the mutual trust and cooperation that arises from the web of connections among people involved in organisations and community groups. For the most part, private activities, not government ones, foster social capital. The term civil society is sometimes used as a synonym for the relationships that create social capital. In a civil society, social capital flows easily between people.
Activities that can build social capital include the following:

- Participating in the local parent-teacher association
- Joining a civic organisation, such as the Elks or the Kiwanis Club
- Volunteering in the neighbourhood or around the community
- Forming a neighbourhood watch
- Donating old clothes or goods
- Contributing to a food bank
- Joining a church or synagogue group
- Belonging to a bridge team, craft club, or other type of common-interest group

In a democratic society, people must be willing to trust others and tolerate those with whom they disagree. Without these attitudes, democracy can fail, because democracy is ultimately a cooperative form of government. Many political scientists regard social capital as essential to democracy because social capital forges bonds between members of the community. These bonds enable people to readily join together. Also, working with others helps build a sense of community and trust among citizens, which, in turn, creates more social capital.
One of the most difficult tasks for any democratising country is the building of civil society. Authoritarian regimes discourage civil society because civil society can form the basis of resistance to the government. These governments instil fear and mistrust within their citizens, often turning groups and individuals against one another. New democracies sometimes have trouble building community trust and tolerance because their citizens are not used to working together in civil society. For this reason, nations that seek to help other nations democratise must focus much energy on creating social capital and building civil societies.

Political Participation

Political participation is any activity that shapes, affects, or involves the political sphere. Political participation ranges from voting to attending a rally to committing an act of terrorism to sending a letter to a representative. Broadly speaking, there are three different types of participation:

- *Unconventional participation*: Activities that are legal but often considered inappropriate. Young people, students, and those with grave concerns about a regime's policies are most likely to engage in unconventional participation. Unconventional political participation includes signing petitions, supporting boycotts, and staging demonstrations and protests.
- *Conventional participation*: Activities that we expect of good citizens. For most people, participation occurs every few years at election time. People strongly committed to politics are more likely to participate on a regular basis. Conventional political participation includes voting, volunteering for a political campaign, making a campaign donation, belonging to activist groups, and serving in public office.
- *Illegal participation*: activities that break the law. Most of the time, people resort to illegal participation only when legal means have failed to create significant political change. Illegal political participation includes political assassination, terrorism, and sabotaging an opponent's campaign through theft or vandalism.

Most democratic citizens feel that some level of political participation, particularly conventional participation, is admirable and acceptable. But political participation can be hard: One must find the time, and perhaps money, in order to participate. So why do people do it? People participate in politics out of a sense of the following:

- *Idealism*: Some participate because they believe strongly in a particular idea.
- *Responsibility*: For many, participation is a responsibility of democratic citizenship.
- *Self-interest*: A person might work to promote issues and causes that personally profit that person.
- *Enjoyment*: Some simply enjoy the public activity, either because of the activity itself or because of the friends they make while politically engaged.

Public Opinion

Public opinion consists of the views held by the population of a state that influence those in power. In a democratic state, politicians must listen to public opinion if they wish to keep their jobs. Dissatisfied constituents can vote out those who ignore their views. But regimes with other types of governments also need to pay attention to public opinion. If the public overwhelmingly opposes the government, the regime could be in serious danger of revolution or collapse.

We learn about public opinion through *polling*, which asks people their views and then compiles the results. Politicians and pundits in many countries rely on public opinion polls, and the media frequently reports on polls. *Sampling* a subset of the population allows *pollsters*, or the people who create and take the polls, to get a sense of overarching concerns and interests within a large population. Rather than polling every citizen, an expensive and time-consuming process, polls use *samples*. Pollsters hope that the opinions of the sample accurately reflect the population as a whole. Just as one does not need to taste every bite of stew to know that it needs more salt, one need not poll every person to learn public opinion.

To make sure that their poll results are accurate, pollsters seek good samples. The most obvious way to get a good sample is to include lots of people. But including more people does not guarantee that the poll will be accurate. Instead, a sample must be *representative*—that is, the sample must have the same basic characteristics as the population. If the population has a 15 percent poverty rate, for example, the sample should have a roughly equal portion of poor people. Pollsters have a number of techniques to ensure a representative sample, and they rely on statistical methods to measure the probability that a poll is accurate.

Pollsters rely heavily on probability and randomness to increase the chance of getting a good sample. In a *probability sample*, each person in the population has a known chance of being chosen as part of the sample. When pollsters assign each person an equal chance of being selected, they are using *random selection. Sampling error* results from bad samples. A poll that falls prey to sampling error will inaccurately measure public opinion. A common source of sampling error is a *skewed sample*, one that does not match the population. Some popular types of polling—asking people as they walk down the street, for example, or online polls—produce very skewed samples and are therefore unreliable.

One of the most notorious examples of a bad sample is the 1936 US presidential election poll conducted by the Literary Digest, a notable magazine of the era. The sample numbered more than a million people, but it ended up very wrong: The poll predicted that Alfred Landon would defeat Franklin Roosevelt, but Roosevelt won easily. The poll was wrong because its sample was skewed. Pollsters contacted people in phone books, as well as people with registered automobiles. But during the Great Depression, rich people were the only ones with phones and cars. Thus, the poll contained responses from far too many rich people and not nearly enough from other social classes.

Many factors affect public opinion. Five of the most important factors are:

- *Politicians*: Many officials actively campaign to generate support among the public. They give speeches and interviews, stage rallies, and listen to constituents.
- *Media*: The news media covers all major political events extensively. Indeed, sometimes it seems that the media creates important political events by choosing to cover them so much. Because the vast majority of people get their political information from the media, it has a huge impact.
- *Socioeconomic status:* Most political and economic events affect people unevenly, so one's social and economic status naturally affects one's views. Wealthy people are more likely than poor people to support a budget that cuts taxes on capital gains, for example, because they would benefit more from the tax cut.
- *Major events*: Any significant event—a war, an economic downturn, or a diplomatic success, for example—can influence people's views. In the United States, for example, whenever a foreign crisis arises, support for the president shoots up dramatically. Political scientists call this increase in popularity the rally 'round the flag effect. The effect might not always last a long time, but in the short run, the president's popularity goes up.
- *Opinion leaders*: Political scientists call a person whose views on an issue can affect the views of others an opinion leader. Often, opinion leaders are prominent members of the community and pay more attention to politics than most people. The Internet, for example, has created a new type of opinion leader called a blogger (short for weblogger). Many people read the same political blogs every day and are strongly influenced by what they read. Politicians have begun to court bloggers, going so far as to invite them to conventions and to grant them interviews in an attempt to win the opinion leaders over side.

International Relations

Governments do not only interact with their people but also with other governments – to trade, to share ideas, to work together. Political scientists have been analysing these relations between states for centuries, but never more so than during the aftermath of the World Wars and the Cold War.

History of the International System

States engage with one another in an environment known as the international system. All states are considered to be sovereign, and some states are more powerful than others. The system has a number of informal rules about how things should be done, but these rules are not binding. International relations have existed as long as states themselves. But the modern international system under which we live today is only a few centuries old. Significant events have marked the milestones in the development of the international system.

The Peace of Westphalia (1648)

In 1648, the Peace of Westphalia, which ended the Thirty Years' War between Catholic states and Protestant states in western and central Europe, established our modern international system. It declared that the sovereign leader of each nation-state could do as she or he wished within its borders and established the state as the main actor in global politics. From that point forward, the international system has consisted primarily of relations among nation-states.

Shifting Balances of Power (1600–1800)

In the seventeenth and eighteenth centuries, the nation-state emerged as the dominant political unit of the international system. A series of powerful states dominated Europe, with the great powers rising and falling. Weaker states often banded together to prevent the dominant power from becoming too strong, a practice known as preserving the balance of power. Frequent wars and economic competition marked this era. Some nations – notably France and England – were powerful through most of the modern age, but some – such as Spain and the Ottoman Empire – shrank in power over time.

The emergence of Nationalism (1800–1945)

In the nineteenth century, nationalism emerged as a strong force, allowing nation-states to grow even more powerful. Italy and Germany became unified countries, which altered the balance of military and economic power in Europe. The problems raised by the unification of Germany contributed to World War I (1914–1918). In the aftermath of the war, the international system changed dramatically again. The major powers of Europe had suffered greatly, whereas the United States began to come out of its isolation and transform into a global power. At the same time, the end of the Ottoman and Austro-Hungarian empires created a series of new nations, and the rise of communism in Russia presented problems for other nations. These factors contributed to the Treaty of Versailles, the rise of Nazism and communism, and World War II (1939–1945).

New World Orders (after 1945)

The end of World War II marked a decisive shift in the global system. After the war, only two great world powers remained: the United States and the Soviet Union. Although some other important states existed, almost all states were understood within the context of their relations with the two superpowers. This global system was called bipolar because the system centred on two great powers.

Since the end of the Cold War and the fall of the Soviet Union, the nature of the world has changed again. Only one superpower remains, leading some scholars to label the new international system unipolar. Others point to the increasing economic power of some European and Asian states and label the new system multipolar. To some extent, both terms are accurate. The United States has the world's most powerful military, which supports the unipolar view, but the U.S. economy is not as powerful, relative to the rest of the world, lending credence to the multipolar view.

Theories of International Relations

A *theory of international relations* is a set of ideas that explains how the international system works. Unlike an ideology, a theory of international relations is (at least in principle) backed up with concrete evidence.

Most theories of international relations are based on the idea that states always act in accordance with their *national interest*, or the interests of that particular state. State interests often include self-preservation, military security, economic prosperity, and influence over other states. Sometimes two or more states have the same national interest. For example, two states might both want to foster peace and economic trade. And states with diametrically opposing national interests might try to resolve their differences through negotiation or even war.

The three major theories of international relations are realism, liberalism, and constructivism:

Realism defines the world as a harsh and dangerous place. The only certainty in the world is power. States work only to increase their own power relative to that of other states. A powerful state will always be able to outdo – and outlast – weaker competitors. The most important and reliable form of power is military power.

Realism also claims the following:

- A state's primary interest is self-preservation. Therefore, the state must seek power and must always protect itself.
- There is no overarching power that can enforce global rules or punish bad behaviour. Also, international organisations and law have no power or force; they exist only as long as states accept them.
- Moral behaviour is very risky because it can undermine a state's ability to protect itself.
- The international system itself drives states to use military force and to war. Leaders may be moral, but they must not let moral concerns guide foreign policy.

Politicians have practiced realism as long as states have existed. Most scholars and politicians during the Cold War (like Hans Morgenthau, Kenneth Waltz, John Mearsheimer, and Henry Kissinger) viewed international relations through a realist lens. Neither the United States nor the Soviet Union trusted the other, and each sought allies to protect itself and increase its political and military influence abroad.

Liberalism emphasises that the broad ties among states have both made it difficult to define national interest and decreased the usefulness of military power. Liberalism developed in the 1970s as some scholars began arguing that realism was outdated. Increasing globalisation, the rapid rise in communications technology, and the increase in international trade meant that states could no longer rely on simple power politics to decide matters. Liberal approaches to international relations are also called theories of complex interdependence. Liberalism claims the following:

- The world is a harsh and dangerous place, but the consequences of using military power often outweigh the benefits. International cooperation is therefore in the interest of every state.
- Military power is not the only form of power. Economic and social power matter a great deal too. Exercising economic power has proven more effective than exercising military power.
- Different states often have different primary interests.
- International rules and organisations can help foster cooperation, trust, and prosperity.

Relations among the major Western powers fit a model of complex interdependence very well. The United States has significant disagreements with its European and Asian allies over trade and policy, but it is hard to imagine a circumstance in which the United States would use military power against any of these allies. Instead, the United States relies on economic and diplomatic incentives to achieve its policy aims. Important liberal thinkers in international relations include Adam Smith and Immanuel Kant.

In addition to realism and liberalism, a new theoretic approach appeared: *Constructivism* takes beliefs and values as crucial elements in determining a reality that is socially constructed – as supposed to liberalism and realism which take such things for granted. Thus, social practice, discourse, and interaction among the participants of the international realm (both state and non-state actors) are the fundamental drivers of this ongoing and maieutic process in which the emerging norms and values shape their own interests and identities.

Without offering any predictions, but focusing on an attempt to explain the reasons for political change, the constructivist perspective looks at power not as an irrelevancy but as a subjective product of ideas and identities. The definition of "power" – according to the constructivist interpretative framework – is influenced by the cultural and the historical context in which it is analysed. Similarly, constructivists argue that the realist conception of anarchy does not adequately explain why conflict occurs between states. The real issue, in fact, "anarchy is what states make of it".

International Law

In order to make the global system less chaotic and unpredictable, states often make agreements with one another to modify their behaviour. International agreements are treaties signed by a number of states that establish global rules of conduct. Some agreements focus on single issues, whereas others cover many areas. Theoretically, international agreements benefit the states that sign them. States that break these rules—sometimes called rogue states—are usually treated with wariness by the rest of the world.

International law is the collection of rules and regulations that have evolved over the past few centuries. These rules define the rights and obligations of states. Sometimes treaties codify and formalise international law, but just as often, international law arises from custom and habit. The International Court of Justice, in the Netherlands, is the judicial body of the United Nations and is responsible for resolving disputes among states.

A key dispute among political scientists concerns the effectiveness of international law. Realists argue that because there is no international police force to enforce international law, the law has no real power. States only obey international law when it is in their interest to do so. Liberalists, however, dispute this idea, contending that there are real consequences to breaking international law—such as sanctions and even military occupation—and that international organisations have a measurable impact on global relations.

International treaties serve as an important part of international law. States sign treaties to end wars, protect their interests, and make international law. Significant international treaties include the United Nations Charter (1945), the General Agreement on Tariffs and Trade (1947), the North Atlantic Treaty (1949), the Warsaw Pact (1955, the Anti-Ballistic Missile Treaty (1972) and the Kyoto Protocol (2005).

You can learn more about international law in our International Law Course.

International Organisations

Some international agreements create international organisations, which are institutions that set rules for nations and provide venues for diplomacy. There are different types of international organisations: international governmental organisations (IGOs) and international nongovernmental organisations (NGOs). In recent years, multinational corporations (MNCs) have also had a significant impact on the international system.

IGOs and NGOs exist for a variety of reasons, such as controlling the proliferation of conventional and nuclear weapons, supervising trade, maintaining military alliances, ending world hunger, and fostering the spread of democracy and peace.

- International Governmental Organisations. IGOs form when governments make an agreement or band together. Only governments belong to IGOs. The United Nations (UN), the North Atlantic Treaty Organisation (NATO), the World Trade Organisation (WTO), and the European Union (EU) are all examples of IGOs.
- Nongovernmental Organisations. Unlike governmental organisations, NGOs are made up of individuals, not businesses or governments. NGOs serve a variety of functions and represent numerous interests. Not all NGOs have a positive impact on global politics. Although Amnesty International has helped defend human rights and Greenpeace has protected the environment, for example, the international terrorist organisation al Qaeda has killed civilians in an effort to cripple economies and topple governments. Since the end of World War II, nongovernmental actors have become more important in the global arena.
- Multinational Corporations. MNCs, or businesses that operate in more than one country, are another type of nongovernmental actor in the international system. Although MNCs are nongovernmental actors, they are not NGOs. Their primary aim is to make money. In the twenty-first century, MNCs dominate the global economy. Some MNCs—such as Coca-Cola, Microsoft, and IBM, to name a few—are worth more than many small countries, which means that they have the power to be major players in international politics.

Conflicts and Peace

Although numerous international agreements exist to facilitate smooth relations between countries, international politics can still be violent. Identifying causes and consequences of political violence, as well as thinking about the impact, has become an important part of political science.

War

War has been far too common in human history and thus is the central problem of international relations. Many political scientists and foreign policymakers view war as the continuation of politics: When diplomacy fails, some states decide to use force. Others see war as the result of a breakdown of the modern international system because so many of the rules of international institutions were designed to reduce conflict among states.
The most common reasons that lead to war are:

- *Human nature*: Humans are naturally violent and aggressive, making war inevitable.
- *Regime types:* Some regimes are more prone to waging war than others. Overall, it appears that democracies are less likely to fight other democracies, a phenomenon scholars refer to as the “democratic peace”. Democracies are, however, just as likely as other types of regimes to fight non democracies.
- *Ideology*: Some political beliefs favour war more than others. Some scholars blame fascism, for example, for World War II.
- *Religion*: Religious belief has driven many states to war, either to spread the faith or to eradicate heretics. During the early modern era, for example, nearly every European country experienced numerous wars of religion between Catholics and Protestants.
- *The global system:* Because the global system is anarchic, states must engage in war to protect themselves.
- *Economics and resources*: Disputes over resources often lead to war.

Although all wars are violent, not all wars are the same. In fact, there are many different types of wars, which can be classified according to which people actually fight, the intensity of the conflict, and the extent of combatants’ use of violence, among other factors. Scholars generally describe five types of war:

- A *total war* is a war in which combatants use every resource available to destroy the social fabric of the enemy. Total wars are highly destructive and are characterised by mass civilian casualties because winning a total war often requires combatants to break the people’s will to continue fighting. World Wars I and II were total wars, marked by the complete destruction of the civilian economy and society in many countries, including France, Germany, the Soviet Union, Italy, Great Britain, and Japan.
- A *limited wa***r** is a war fought primarily between professional armies to achieve specific political objectives without causing widespread destruction. Although the total of civilian casualties may be high, combatants do not seek to completely destroy the enemy’s social and economic frameworks. The Persian

Gulf War of 1990–1991 was a limited war in which the United States and its allies forcibly removed Iraqi troops from Kuwait.

- A *guerrilla war* is a war in which one or both combatants use small, lightly armed militia units rather than professional, organised armies. Guerrilla fighters usually seek to topple their government, often enjoying the support of the people. These wars are often very long but also tend to be successful for the insurgents as evidenced by Mao Zedong's victory over Chiang Kai-shek in China in the 1940s, the Vietcong's victory over the United States in the Vietnam War, and the Mujahideen's victory over the Soviet Union in Afghanistan in the 1980s.
- A *civil war* is a war fought within a single country between or among different groups of citizens who want to control the government and do not recognise another group's right to rule. Civil wars are almost always total wars because each side feels compelled to destroy the enemy's political support base. Regional rifts, such as the American Civil War between the North and the South, characterise some civil wars, whereas other civil wars have been fought among ethnic rivals, religious rivals, and rival clans. Revolutions can spark civil wars as well.
- A *proxy war* is a war fought by third parties rather than by the enemy states themselves. Many of the militarised conflicts during the Cold War, such as the Korean War and the Vietnam War, can be interpreted as proxy wars between the United States and the Soviet Union, neither of which wanted to fight each other directly.

A war can often be a limited war, a guerrilla war, and a civil war all at the same time. The Soviet invasion of Afghanistan in 1979 is a great example. The United States sent trainers, money, and weapons to Afghan rebels to fight against the invaders, making it a low-intensity, limited conflict from the U.S. point of view. The Afghan resistance mostly relied on guerrilla tactics. And the war split Afghanistan, so it was also a civil war.

Intervention is a fairly common way for a third-party state to get involved in a civil war or a war between two or more other states. A state intervenes when it sends troops, arms, money, or goods to help another state that is already at war. During the Cold War, the term *intervention* was used to describe one of the superpowers becoming involved in a smaller country's war (often a developing country).

But states sometimes intervene in order to bring peace. This type of intervention occurs when a country sends military forces into another state to act as *peacekeepers* or to block other forces from attacking. Sometimes these interventions are organised or conducted by the United Nations or another international organisation. The NATO, for example, sent troops into the former Yugoslavia during the 1990s on a number of occasions to protect people from war.

In 1864, several states created the *Geneva Conventions*, an international agreement that regulated acceptable behaviour during armed conflicts. Since then, the Geneva Conventions have been amended a few times as the nature of war has changed. The agreements prohibit torture, rape, genocide, mutilation, slavery, and other crimes against humanity. The conventions also state that prisoners of war must be treated humanely and that civilians may not be used as hostages.

Revolution

A *revolution* is any fundamental change in the social or political aspects of a state. Most revolutions are political, occurring when the citizens of a country try to oust the existing government and replace it with a new one. Political revolutions tend to be tumultuous, violent events. There is no clear-cut explanation as to why people revolt, but scholars believe that some or all of the following factors lead to revolution:

- *Injustice*: Aristotle argued that the cause of revolution was the perception of injustice. If the underclasses feel that they are being treated unjustly, they will revolt.
- *Relative deprivation*: Some scholars have argued that revolutions occur after a period of good times has ended. The citizens begin to expect a higher quality of life and feel cheated when they perceive a stagnation or decline in the quality of their lives.
- *State of the government*: Revolutions are more likely to happen in countries with corrupt governments. If citizens believe in the efficacy of their government, then revolution is unlikely. But if a regime appears to exist solely to enrich the rulers, then revolution is more likely.
- *The military*: As the strongest power in most states, the military frequently determines whether a revolution will occur and be successful. If the military backs the government, then revolution is unlikely. A turning point in many revolutions occurs when soldiers decide to stop obeying the government and decide to fight alongside the revolutionaries.

Although people have always rebelled against their rulers and governments, the modern area witnessed many significant revolutions. Since the sixteenth century, most revolutions have been attempts to overthrow traditional regimes in the name of liberty. In the twentieth century alone, there were important revolutions in Russia, China, Egypt, and parts of communist Eastern Europe, as well as countless others in smaller countries. Revolutions, and countering revolutions, were a driving force of foreign policy in the twentieth century. However, three revolutions in particular have served as models for most of the world's revolutions in the nineteenth and twentieth centuries:

American Revolution (1776–1783): Leaders of the American Revolution overthrew British colonial rule to establish an independent republic. These colonial leaders considered the revolution to be a necessary evil and restricted the use of violence. Although the revolution affected the lives of most Americans, there was little social upheaval.

French Revolution (1788–1799): The French Revolution began much as the American Revolution had but quickly turned violent. Tens of thousands of French citizens were executed during Maximilian Robespierre's so-called Reign of Terror. Order was restored only when Napoleon Bonaparte seized control of the government.

Russian Revolution (1917): Russian revolutionaries sought both the removal of the monarchy and the complete restructuring of civil society in accordance with Vladimir Lenin's version of communism. The second phase of the Russian Revolution served as the model for dozens of other communist revolutions.

Not all revolutions are political. A social revolution is a revolution that transforms society or the economy without drastically altering the existing political system. The Industrial Revolution of the late eighteenth and early nineteenth centuries had a major impact on every country in the world. Beginning around 1780 in England, industry started to replace agriculture, and machinery started to replace manual labor. By the mid-nineteenth century, new forms of production and transportation—including the invention of the steam engine, mechanical typesetting, and movies—had fundamentally altered the modern world. Consequently, the lives of Europeans changed drastically within just a couple of decades.

Terrorism

Terrorism is the use of violence (often against civilian targets) to instil fear, generate publicity, and sometimes destabilise governments. Generally speaking, small groups fighting against powerful states practice terrorism, but governments also have the ability to practice terrorism. Throughout history, terrorism has taken many forms. Just in the last two centuries, for example, terrorism has been used by Russian nihilists, nationalists in Israel, Nazi forces, left-wing guerrillas in Europe, discontented radicals in the United States, Latin American death squads, and Islamic fundamentalists. Terrorism is not tied to any one particular ideology or group.

Scholars generally classify terrorism into two types: terrorism practiced by governments and terrorism practiced by groups not affiliated with a government. Ideological terrorism aims to promote a particular belief system through acts of violence; it may be practiced by both governments and groups.

- *Terrorism Practiced by Government*: A government commits acts of terror against its own citizens (state terrorism) or a government supplies and trains terrorists to make attacks in other countries. (international terrorism; also known as state-sponsored terrorism).
- *Terrorism Practiced by Groups*: Any terrorist act not committed by a government (anti state terrorism) or a group with no ties to another country or government commits terrorist acts within its own country (domestic terrorism)

Some types of terrorism fit into more than one of these categories. Suicide bombings in Israel, for example, are ideological (promoting a Palestinian state and sometimes also promoting Islamic fundamentalism), state-sponsored (a number of Arab governments fund the bombers), and domestic (many are carried out by Arabs living in Israel).

Although guerrillas have been known to practice terrorism, guerrillas are not terrorists.

Guerrillas fight against their governments, particularly against the military, in order to provoke a regime change. Terrorists, in contrast, target civilians and members of the military in order to create a social and political crisis of international proportions. Of course, those fighting a guerrilla group might label their opponents as terrorists, and some terrorists may see themselves as guerrillas.

Terrorist acts ultimately aim to undermine governments and disrupt societies. Many terrorists are young, frustrated men who feel that they have been treated unjustly. Sometimes terrorists try to destabilise a government directly, via assassinations, kidnappings, and the bombing of government buildings. Terrorists can also work to undermine governments indirectly by showing people that their leaders are too weak to prevent the attacks and that an active resistance movement exists. Sometimes, terrorists attack in order to provoke a strong response from the government, hoping that the response will alienate more people from the government and foster even more political discord.

Peace building

Peace building is an intervention that is designed to prevent the start or resumption of violent conflict by creating a sustainable peace. *Peace building* activities address the root causes or potential causes of violence, create a societal expectation for peaceful conflict resolution and stabilise society politically and socioeconomically.

The tasks included in peace building vary depending on the situation and the agent of peace building. Successful peace building activities create an environment supportive of self-sustaining, durable peace; reconcile opponents; prevent conflict from restarting; integrate civil society; create rule of law mechanisms; and address underlying structural and societal issues. Post conflict peace building can be divided into three dimensions:

1. Stabilisation:

Activities within the first dimension reinforce state stability post-conflict and discourage former combatants from returning to war (disarmament, demobilisation, and reintegration, in short: DDR). Taking away weapons and re-integrating former combatants into civilian society are essential parts.

2. Building State Capacities:

Second dimension activities build state capacity to provide basic public goods and increase state legitimacy. This step includes:

- Rebuilding basic facilities, transportation and communication networks
- Developing rule of law systems and public administration
- Building educational and health infrastructure
- Creating legitimate (democratic, accountable) state institutions

3. Sustainable Peace Promotion:

Programs in the third dimension build a post-conflict society's ability to manage conflicts peacefully and promote socio-economic development. Essential elements are:

- Trauma counselling, transitional justice, and restoration
- Building bridges between different communities
- Promoting human rights and economic development
- Developing a civil society and private sector that can represent diverse interests peacefully

A mixture of locally and internationally focused components is key to building long-term sustainable peace. Although international support is in almost all cases essential and irreplaceable, peace building practices arise from local communities, they are tailored to local context and culture in a way that generalised international peace building approaches are not.

Good Governance

Good Governance has become a widespread buzzword in political discussions and it is used in development strategies around the globe. Today, international organisations (like the World Bank, the United Nations, and the EU), as well as many national states, support good governance principles.

The term "governance" describes how decisions are taken in a state, how a political framework is formulated, and how it is implemented. But what does "good governance" mean? Good governance is often described as transparent, effective and accountable. It involves the whole population and considers the opinions and needs of minorities and disadvantaged groups. However, there is no single and exhaustive definition of "good governance." The term is used with great flexibility; this is an advantage, but also a source of some difficulty at the operational level.

It is important to distinguish good governance from other concepts that look similar, such as development and economic growth. Instead of considering them as equal, many scholars refer to them as features that are likely to be related in different ways. In fact, many authors claim good governance may have an impact on development and economic growth.

According to the United Nations, Good Governance is measured by eight factors:

Participation	Participation requires that all groups, particularly those most vulnerable, have direct or representative access to the systems of government. This manifests as a strong civil society and citizens with the freedom of association and expression.
Rule of Law	Rule of Law is exemplified by impartial legal systems that protect the human rights and civil liberties of all citizens, particularly minorities. This is indicated by an independent judicial branch and a police force free from corruption.
Transparency	Transparency means that citizens understand and have access to the means and manner in which decisions are made, especially if they are directly affected by such decisions. This

	information must be provided in an understandable and accessible format, typically translated through the media.
Responsiveness	Responsiveness simply involves that institutions respond to their stakeholders within a reasonable time frame.
Consensus Oriented	Consensus Oriented is demonstrated by an agenda that seeks to mediate between the many different needs, perspectives, and expectations of a diverse citizenry. Decisions need to be made in a manner that reflects a deep understanding of the historical, cultural, and social context of the community.
Equity and Inclusiveness	Equity and Inclusiveness depend on ensuring that all the members of a community feel included and empowered to improve or maintain their well being, especially those individuals and groups that are the most vulnerable.
Effectiveness and Efficiency	Effectiveness and Efficiency are developed through the sustainable use of resources to meet the needs of a society. Sustainability refers to both ensuring social investments carry through and natural resources are maintained for future generations.
Accountability	Accountability refers to institutions being ultimately accountable to the people and one another. This includes government agencies, civil society, and the private sector all being accountable to one another as well.

It is important to highlight that the promotion of good governance goes beyond the government sector and includes all relevant actors from the private sector and society. The aims: To balance interests and focus on common goals, particularly reducing poverty and providing access to state services for all. To make administrative structures participative, efficient and solution-oriented.

Good governance is always linked to a set of specific values: It is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law.
Good governance assures that corruption is minimised, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.
As you can probably guess, good governance is an *ideal* which is difficult to achieve in its totality. Very few countries and societies have come close to achieving good governance in its totality. However, to ensure sustainable human development and to protect human rights, actions must be taken to work towards this ideal with the aim of making it a reality. Today the importance of good governance and human rights for sustainable development is recognised around the globe.

This course provided a broad introduction to the range of topics covered in political science, from authoritarian to democratic politics, from local governance to international relations, from formal rules and institutions to the psychology and behaviour of individuals who participate in political processes.
Politics has an impact on us all – whether or not we choose to be politically active. An understanding of the key elements of politics is essential if we want to understand how political decisions are made, how governments work, and how their actions affect the world.

INTERNATIONAL LAW

Introduction

Welcome to International Law!
A vast network of international law and dozens of international organisations make globalisation possible. This course describes the sources of international law, the subjects it covers as well as the relevant stakeholders.
Treaties and other types of agreements among countries set rules for international trade and finance, such as the GATT; foster cooperation on protecting the environment, such as the Kyoto Protocol; and establish basic human rights, such as the International Covenant on Civil and Political Rights. Meanwhile, among many international organisations, the United Nations facilitates international diplomacy; the World Health Organisation coordinates international public health and protection, and the International Labor Organisation monitors and fosters workers' rights around the world.
The scope and authority of international law have thus expanded dramatically during the era of globalisation. Historically, international law addressed only relations between states in certain limited areas (such as war and diplomacy) and was dependent on the sovereignty and territorial boundaries of distinct countries (generally referred to as "states").
But *globalisation* has changed international law in numerous ways. For example, as globalisation has accelerated, international law has become a vehicle for states to cooperate regarding new areas of international relations (such as the environment and human rights), many of them requiring states to rethink the previous notions of the inviolable sovereign state. The continued growth of international law is even more remarkable in this sense, since states, having undoubtedly weighed the costs and benefits of the loss of this valuable sovereignty, have still chosen to continue the growth of international law.
Because of the need for enhanced international (or as some call it, "transnational") cooperation, globalisation has therefore given new meanings to classic issues. Questions of the authority of a country within its own borders – that is, its state sovereignty – the role of the individual in the international community of nation-states, and the authority of international organisations, have all evolved in light of the forces of globalisation.

What is International Law?

What is the basic definition of "international law"? Is international law similar to the laws of a national state that are enforced by courts and police? Where do we find the rules of international law? Finally, how is international law enforced, if there is no world government?

Is International Law Really "Law"?

Basically defined, international law is simply the *set of rules that countries follow* in dealing with each other. There are three distinct legal processes that can be identified in international law:

- *Public International Law:* The relationship between sovereign states and international entities such as the International Criminal Court,
- *Private International Law:* Addressing questions of jurisdiction in conflict
- *Supranational Law:* The set of collective laws that sovereign states voluntarily yield to

There are several ways to think about law. In the domestic legal system, we think of law as the rules that the government issues to control the lives of its citizens. Those rules are generally created by the legislature, interpreted by the judiciary, and enforced by the executive branch, using the police, if necessary, to force citizens to obey. What is the law for the international community if there is no legislature, judiciary or executive branch, and no police force?
Imagine a school playground with several children at play. The "law" is the set of playground rules that the teacher tells her students. For example, she might tell them, "Don't hit your classmate." Two different reasons can explain why the children will follow this rule. On the one hand, they may follow the rule only because they are afraid of being punished by the teacher. On the other hand, the students may believe that it is a bad thing to hit their classmates. Since it is a bad thing to do, they will follow the teacher's rule.
In the first case, they will obey the rule only if the teacher is there and ready to punish them. In the second case, students will obey the rule even if the teacher is not there. In fact, even if the teacher is not present, the children may obey the rule because they have become used to not hitting each other and have therefore enjoyed playing with each other.
Just as certain common understandings between children may make it easier for them to play, a collective agreement on certain rules can often serve the interests of all the members of a community. Just as on a playground without a teacher, in the international setting, there is no central authority. For the most part, however, states will follow the rules they have agreed to follow because it makes these interactions easier for all parties involved.

Thus, the fact that there is *no overall authority* to force compliance with the rules does not necessarily mean that there is no law. *Law still exists* in this setting, though it may be practiced and enforced in different ways. International law can therefore be called "real law," but with different characteristics from the law practiced in domestic settings, where there is a legislature, judiciary, executive, and police force.

International law is the set of rules generally regarded and accepted as binding in relations between states and between nations.

What are the sources?

Since there is no world government, there is no world congress or parliament to make international law the way domestic legislatures create laws for one country. As such, there can be significant difficulty in establishing exactly what is international law. Various sources, however – principally treaties between states – are considered authoritative statements of international law. Treaties are the strongest and most binding type because they represent consensual agreements between the countries who sign them. At the same time, as stated in the statute of the International Court of Justice (ICJ), rules of international law can be found in customary state practice, general principles of law common to many countries, domestic judicial decisions, and the legal scholarship.

International Treaties:

Treaties are similar to contracts between countries; promises between states are exchanged, finalised in writing, and signed. States may debate the interpretation or implementation of a treaty, but the written provisions of a treaty are binding. Treaties can address any number of fields, such as trade relations, such as the North American Free Trade Agreement and the European Union, or control of nuclear weapons, such as the Nuclear Non-Proliferation Treaty. They can be either bilateral (between two countries) or multilateral (between many countries). They can have their own rules for enforcement, such as arbitration, or refer enforcement concerns to another agency, such as the International Court of Justice. The rules concerning how to decide disputes relating to treaties are even found in a treaty themselves – the Vienna Convention on the Law of Treaties (United Nations, 1969).

Custom:

Customary international law (CIL) is more difficult to ascertain than the provisions of a written treaty. CIL is created by the actual actions of states (called "state practice") when they demonstrate that those states believe that acting otherwise would be illegal. Even if the rule of CIL is not written down, it still binds states, requiring them to follow it.

For example, for thousands of years, countries have given protection to ambassadors. As far back as ancient Greece and Rome, ambassadors from another country were not harmed while on their diplomatic missions, even if they represented a country at war with the country they were located in. Throughout history, many countries have publicly stated that they believe that ambassadors should be given this protection. Therefore, today, if a country harmed an ambassador it would be violating customary international law.

Similarly, throughout modern history, states have acknowledged through their actions and their statements that intentionally killing civilians during wartime is illegal in international law. Determining CIL is difficult, however, because, unlike a treaty, it is not written down. Some rules are so widely practiced and acknowledged by many states to be law, that there is little doubt that CIL exists regarding them; but other rules are not as universally recognised and disputes exists about whether they are truly CIL or not.

General Principles of Law:

The third source of international law is based on the theory of "natural law," which argues that laws are a reflection of the instinctual belief that some acts are right while other acts are wrong. "The general principles of law recognised by civilised nations" are certain legal beliefs and practices that are common to all developed legal systems (United Nations, 1945).

For instance, most legal systems value "good faith," that is, the concept that everyone intends to comply with agreements they make. Courts in many countries will examine whether the parties to a case acted in good faith, and take this issue into consideration when deciding a matter. The very fact that many different countries take good faith into consideration in their domestic judicial systems indicates that "good faith" may be considered a standard of international law. General principles are most useful as sources of law when no treaty or CIL has conclusively addressed an issue.

Judicial Decisions and Legal Scholarship:

The last two sources of international law are considered "subsidiary means for the determination of rules of law." While these sources are not by themselves international law, when coupled with evidence of international custom or general principles of law, they may help to prove the existence of a particular rule of international law.

Especially influential are judicial decisions, both of the International Court of Justice (ICJ) and of national courts. The ICJ, as the principal legal body of the United Nations, is considered an authoritative expounder of law, and when the national courts of many countries begin accepting a certain principle as legal justification, this may signal a developing acceptance of that principle on a wide basis such that it may be considered part of international law.

Legal scholarship, on the other hand, is not really authoritative in itself, but may describe rules of law that are widely followed around the world. Thus, articles and books by law professors can be consulted to find out what international law is.

How is International Law enforced?

A treaty may have incorporated into its own text enforcement provisions, such as arbitration of disputes or referral to the ICJ. However, some treaties may not expressly include such enforcement mechanisms. Especially in situations where the international law in question is not explicitly written out in a treaty, one can question how this unwritten law can be enforced. In an international system where there is no overarching authoritative enforcer, punishment for non-compliance functions differently. States are more likely to fear tactics used by other states, such as reciprocity, collective action, and shaming.

Reciprocity:

Reciprocity is a type of enforcement by which states are assured that if they offend another state, the other state will respond by returning the same behaviour. Guarantees of reciprocal reactions encourage states to think twice about which of their actions they would like imposed upon them. For example, during a war, one state will refrain from killing the prisoners of another state because it does not want the other state to kill its own prisoners. In a trade dispute, one state will be reluctant to impose high tariffs on another state's goods because the other state could do the same in return.

Collective Action:

Through collective action, several states act together against one state to produce what is usually a punitive result. For example, Iraq's 1990 invasion of Kuwait was opposed by most states, and they organised through the United Nations to condemn it and to initiate joint military action to remove Iraq. Similarly, the United Nations imposed joint economic sanctions, such as restrictions on trade, on South Africa in the 1980s to force that country to end the practice of racial segregation known as apartheid.

Shaming (also called the "name and shame" approach):

Most states dislike negative publicity and will actively try to avoid it, so the threat of shaming a state with public statements regarding their offending behaviour is often an effective enforcement mechanism. This method is particularly effective in the field of human rights where states, not wanting to intervene directly into the domestic affairs of another state, may use media attention to highlight violations of international law. In turn, negative public attention may serve as a catalyst to having an international organisation address the issue; it may align international grassroots movements on an issue; or it may give a state the political will needed from its populace to authorise further action. A recent example of this strategic tactic was seen in May 2010, when the U.N. named the groups most persistently associated with using child soldiers in Asia, Africa, and Latin America (United Nations, 2010).

Sovereignty

State sovereignty is the concept that states are in complete and exclusive *control* of all the people and property within their territory. State sovereignty also includes the idea that all states are equal as states. Since all states are equal, one state does not have the right to interfere with the internal affairs of another state.

In other words, despite their different landmasses, population sizes, or financial capabilities, all states, ranging from tiny islands of Micronesia to vast expanse of Russia, have an *equal right* to function as a state and make decisions about what occurs within their own borders.

Practically, sovereignty means that one state cannot demand that another state take any particular internal action. For example, if Canada did not approve of a Brazilian plan to turn a large section of Brazil's rainforest into an amusement park, the Canadian reaction is limited by Brazil's sovereignty. Canada may meet with the Brazilian government to try to convince them to halt the project. Canada may bring the issue before the UN to survey the world's opinion of the project. Canada may even make politically embarrassing public complaints in the world media. However, Canada cannot simply tell Brazil to stop the rainforest project and expect Brazil to obey.

Under the concept of state sovereignty, no state has the authority to tell another state how to control its internal affairs. Sovereignty both grants and limits power: it gives states complete control over their own territory while restricting the influence that states have on one another. In this example, sovereignty gives the power to Brazil to ultimately decide what to do with its rainforest resources and limits the power of Canada to impact this decision.

Globalisation is changing this view of sovereignty, however. In the case of the Brazilian rainforest, Brazil may consider a rainforest located wholly within its property an issue solely of internal concern. Canada may claim that the world community has a valid claim on all limited rainforest resources, regardless of where the rainforest is located, especially in consideration of issues like endangered species and air pollution.

Similarly, states no longer view the treatment of citizens of one state as only the exclusive concern of that state. International human rights law is based on the idea that the entire global community is responsible for the rights of every individual.
International treaties, therefore, bind states to give their own citizens rights that are agreed on at a global level. In some cases, other countries can even monitor and enforce human rights treaties against a state for the treatment of the offending state's own citizens.

In international law, a sovereign state is a nonphysical juridical entity that is represented by one centralised government that has sovereignty over a geographic area.

Fields of International Law

International law has developed certain areas of practice, guided by different principles, documents, and institutions. Even though these areas of expertise can stand alone, the underlying principles of each field both inform and compete with one another.

Law of Armed Conflict

The law of armed conflict (also called the "law of war") can be divided into two categories. The first concerns the legitimate reasons for *starting a war*, known by its Latin terminology, jus ad bellum ("Right to Wage War"). The *laws during war,* jus in bello ("Justice in War"), are also called international humanitarian law.

"Jus ad bellum" principle:
Article 2(4) of the UN Charter states, "All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations" (United Nations, 1945). Some regard this as the prohibition of the use of force outside of UN-approved actions. On the other hand, others consider this clause only non-binding rhetoric, especially considering the history of armed conflict since the UN's birth in 1945.
The UN Charter and CIL do recognise that a state is entitled to use force without international approval when it is acting in self-defence. However, the events that trigger this right to self-defence are subject to debate. Most international lawyers agree that self-defence actions must be immediately necessary and proportional to the attack the state is trying to repel. The clarity of what qualifies as a "just war" has been put in the spotlight as recently as the Invasion of Iraq in 2003, with scholars and politicians around the globe questioning the legitimacy of such a war. In this era of terrorism and weapons of mass destruction, some contend that legal self-defence also extends to pre-emptive attacks to prevent the development of a military threat.
"Jus in bello" principle:
Once armed conflict has begun, international humanitarian laws begin to apply. Some of the most important principles of "jus in bello" are that there must be a valid military purpose to every attack ("military necessity"), that attackers must try to avoid killing non-combatants (the principle of "distinction" between military and non-military targets), and that if non-combatants are killed, their deaths must be in proportion to the military necessity of the attack ("proportionality").
For example, attacking a weapons factory is legitimate, but if the factory is located near civilian homes, then the attacker must try to avoid attacking those home; if attacking them will inevitably kill many civilians, the attack should not take place. Applying these principles in practice, however, is very difficult. Who determines whether an attack was necessary, distinguished between civilians and combatants, and was proportional? The main rules governing jus in bello are written down in the Geneva Conventions of 1949 (ICRC,1949).

Economic Law

International law governs a diverse mixture of economic and commercial matters, such as trade, monetary policy, development, intellectual property rights, and investment. This area of international law reaches broadly enough to encompass topics ranging from international transactions by private parties to agreements between states to regulate their trade activities.
The General Agreement on Tariffs and Trade (GATT) that governs international trade, is the most important treaty in this area; it is administered by the World Trade Organisation. Others include the treaty on Trade Related Aspects of Intellectual Property (TRIPS) and the General Agreements on Trade in Services (GATS).

- GATT can be described as a set of rules, multilateral trade agreement, that came into force, to encourage international trade and remove cross-country trade barriers.
- WTO is an international organisation, that came into existence to oversee and liberalise trade between countries. It is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations

and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation (…) any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.
— General Agreement on Tariffs and Trade (GATT)

Human Rights Law

International human rights law is different from most areas of international law because rather than governing relations between states, human rights law governs a state's relations with its own citizens. The modern human rights law movement has its roots in the post-WWII trials of Nazi leaders at Nuremberg. The world community recognised that the mass atrocities committed during WWII were too serious to be handled under domestic laws because the crimes committed were crimes against all of humanity.

Subsequently, the creators of the UN recognised the reaffirmation of fundamental human rights as one of its most important purposes, and in the first year of its existence, set out to ensure that goal. The first step took place when The Human Rights Commission – at the time the lead UN body of human rights – produced the "International Bill of Human Rights," which is composed of the Universal Declaration of Human Rights and two binding treaties, the International Convention on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR).

All human beings are born with equal and inalienable rights and fundamental freedoms. (…) Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.
— United Nations, Universal Declaration of Human Rights

The Universal Declaration of Human Rights (UDHR) is a UN declaration that does not in form create binding international human rights law. Many legal scholars cite the UDHR as evidence of customary international law. More broadly, the UDHR has become an authoritative human rights reference. It has provided the basis for subsequent international human rights instruments that form non-binding, but ultimately authoritative international human rights law.

On March 15, 2006, recognising the need to update its human rights organisations, the General Assembly of the UN created the Human Rights Council. The Human Rights Council was created with the specific intention to address the heavy criticism that The Human Rights Commission had received for allowing far too many states with poor human rights records into the delegation.

A sophisticated system of agreements and monitoring organisations exists to promote respect for the rights enshrined in these documents, both on international and regional levels, as with the European Convention on Human Rights and its Court of Human Rights, and the American Declaration and American Convention on Human Rights and their Inter-American Commission and Inter-American Court on Human Rights.

Environmental Law

International Environmental Law (IEL) is concerned with the attempt to control pollution and the depletion of natural resources within a framework of sustainable development. It is a branch of public international law – a body of law created by states for states to govern problems that arise between states.

IEL covers topics such as population, biodiversity, climate change, ozone depletion, toxic and hazardous substances, air, land, sea and trans-boundary water pollution, conservation of marine resources, desertification, and nuclear damage.

The UN Environment Assembly – the highest-level UN body ever convened on the environment – opened on 23 June 2014 at the United Nations Environment Programme (UNEP) headquarters in Nairobi. UNEA feeds directly into the General Assembly and has universal membership of all 193 UN member states as well as other stakeholder groups. With this wide reach into the legislative, financial and development arenas, the new body presents a ground-breaking platform for leadership on global environmental policy.

The major declaration on international environmental law is the Declaration of the United Nations Conference on the Human Environment (the 1972 Stockholm Declaration): This declaration represented a first major attempt at considering the global human impact on the environment, and an international attempt to address the challenge of preserving and enhancing the human environment. The Stockholm Declaration espouses mostly broad environmental policy goals and objectives rather than detailed normative positions.

The protection and improvement of the human environment is a major issue which affects the well-being of peoples and economic development throughout the world; it is the urgent desire of the peoples of the whole world and the duty of all Governments.
— Declaration of the United Nations Conference on the Human Environment

Relevant Actors

Traditionally, international law dealt only with the relations between states – and states were the only creators and subjects of the law. Today that has changed, with new actors like NGOs, public organisations and private stakeholders joining as both creators and subjects.

States

States play the central and undisputed leading role in the creation of international law. However, the determination of whether an entity is actually a state can present a challenge.
The generally agreed-upon criteria for statehood are:

- Possesses a defined *territory*
- Inhabited by a permanent *population*
- Controlled by an independent *government*
- Engages in formal *relations* with other states

The application of criteria is often subject to political considerations, however. Breakaway regions of countries often meet or are on the way to meeting these criteria, such as Kosovo, the Albanian-majority province of Serbia, or Chechnya, part of Russia, but are not recognised as states by the international community. Another issue in statehood that has been highly controversial for many years is the recognition of the State of Palestine. In such an instance this region is internationally recognised by many states (de jure), however, controls little to no portion of their claimed territory (de facto).

State representation, where more than one government tries to represent a single state, is also an important consideration. For example, even though the Taliban religious movement effectively controlled Afghanistan prior to the U.S. invasion in 2001, Afghanistan was represented in the UN by the government that had been deposed by the Taliban, but still claimed to be the country’s legitimate rulers.

International Organisations

International organisations, otherwise known as intergovernmental organisations, or IGOs, are formed between two or more state governments. Some IGOs operate by making decisions on the basis of one vote for each member-state, some make decisions on a consensus or unanimity basis, while still others have weighted voting structures based on security interests or monetary donations.

In the *General Assembly of the UN,* each state has one vote, while in the *Security Council,* five states are permanent members and have a veto over any action. The *World Bank* arranges its voting according to the Member State’s

shareholding status, which is roughly based on the size of the state's economy. This is often thought of as the "one dollar = one vote" approach to representation.
There are more than *2,000 international organisations* that deal with a wide variety of topics requiring international cooperation, such as the International Civil Aviation Organisation, the Universal Postal Union, the International Organisation for Standardisation, and the International Organisation for Migration. The following table lists some of the most important and most influential international organisations and groups:

Non-Governmental Organisations

Non-governmental organisations (NGOs), also called civil society organisations, are groups formed by individuals working across national borders to affect public policy. Recent progress in technology, coupled with globalisation's emphasis on international cooperation, has allowed the effectiveness of these organisations to grow drastically. Individuals living in different countries can now network with one another, and the Internet has permitted NGOs to both obtain and publish information on an extensive level, previously only available to states.

NGOs have had significant impact on environmental affairs, such as Greenpeace's advocacy work on climate change, Amnesty International's advocacy of human rights, and the International Campaign to Ban Landmines, which won a Nobel Peace Prize for its work in shaping a global treaty to prohibit use of landmines.
However, as the influence of NGOs has grown, more questions are being raised regarding their accountability. Essentially, NGOs are special-interest groups on an international scale, which means that they are unelected and unaccountable to any public oversight, even though they claim to speak for the "public" as a whole. Failure to deliver adequate or promised results, coupled with little to no structural oversight has proven to be a large obstacle, which many NGOs still currently face scrutiny for.

Individuals

The position of individuals under international law has evolved significantly during the last century. Now, more than ever, under international law individuals are being given more rights and are being held responsible for their actions. Human rights law, for example, has tried to establish that every person around the world has certain basic rights that cannot be violated.
At the same time, individual accountability under international law has been established, first at the Nuremberg trials and recently at the International Criminal Tribunal for Yugoslavia and the International Criminal Tribunal for Rwanda and the dawn of the International Criminal Court, the first permanent international institution to hold individuals responsible for violations of the laws of armed conflict.

This issue of individual accountability in the international system can be seen with the actions carried out in June 2011, when the International Criminal Court (ICC) issued an arrest warrant for Libyan dictator Moammar Gadhafi for "Crimes against humanity" that were purportedly carried out while trying to quash a growing rebellion within the Libyan Borders. However, Gaddafi was eventually captured by National Transitional Council forces and subject to extra-judicial killing along with his son and close advisers in October 2011.

Multinational Corporations

Multinational corporations (MNCs), also sometimes called transnational corporations (TNCs), also are playing an increasing role in the development of international law. MNCs are commercial entities whose interests are profit-driven.
Transnational corporations lobby states and international organisations in a manner similar to NGOs, with the hopes of having their interests protected under international law. Many of the same doubts related to NGO accountability and legitimacy can also be raised in the context of MNCs. For these reasons, the UN has sought both to regulate and to work with MNCs. At the Millennium Forum in May 2000, a proposal was put forth to regulate MNCs. A Draft Code of Conduct was reviewed and debated by various UN bodies for years, with no results. MNCs also have been sued in U.S. courts for violating international law in the way they affect the human rights of people in countries where they operate.

In 2005, in another attempt to regulate a code of conduct for transnational corporations, former UN Secretary-General Kofi Annan appointed John Ruggie as the UN Special Representative for Business and Human Rights. In 2008, Ruggie created the concept of "Protect, Respect, and Remedy," which was presented in concrete form in 2011 and became known as the "UN Guiding Principles on Business and Human Rights." The Human Rights Council unanimously endorsed these principles and quickly established a group to focus on their implementation. The group first met in Geneva, Switzerland in December 2012, and found that much progress had been made in recent years.

The United Nations

The United Nations (UN) is an intergovernmental organisation and complex network responsible for international peace and security. Just as any government may be divided into branches – such as the judiciary, legislative, and executive – the UN also has various bodies with different functions.

The United Nations System

The United Nations (UN) is an international organisation founded in 1945. It is currently made up of 193 Member States. Due to the powers vested in its Charter and its unique international character, the United Nations can take action on the issues confronting humanity in the 21st century, such as peace and security, climate change, sustainable development, human rights, disarmament, terrorism, humanitarian and health emergencies, gender equality, governance, food production, and more.

The UN also provides a forum for its members to express their views in its bodies and committees. By enabling dialogue between its members, and by hosting negotiations, the UN has become a mechanism for governments to find agreements and solve problems together.

The overarching framework of the United Nations incorporates five principal organs, but a vast array of underlying specialised agencies, programs, funds, and related organisations maintain ties with the UN while operating under differing levels of independence. The five principal organs of the UN operate as the political base of the United Nation:

1. General Assembly:

The General Assembly (GA), which is made up of the 193 member states, is the main deliberative body of the UN that meets annually in New York. In the plenary sessions of the GA, the member states address issues of international concern and debate resolutions. These resolutions hold no legally binding authority, but since each member-state gets one vote, GA resolutions represent the beliefs of the international community and are often considered "soft" law. The GA is composed of different committees (e.g. Disarmament and International Security Committee; Economic and Financial Committee; Legal Committee; etc).

2. Security Council:

The Security Council has the "primary responsibility for the maintenance of international peace and security." As such, the Security Council is the only UN body that can pass resolutions and it is also the only part of the UN that can authorise the use of force.

The Security Council has 15 members, including five permanent members (China, France, Russia, the U.K., and the U.S.), and ten non-permanent members selected on a regional basis by the GA.

The five permanent members can veto any substantive issue.

The Security Council has previously established peacekeeping operations, international tribunals, and sanctions.

3. Economic and Social Council:

The Economic and Social Council (ECOSOC) is composed of 54 member-states elected by the GA according to fair regional representation standards. As its name suggests, ECOSOC is charged with making reports and recommendations in the fields of "economic, social, cultural, educational, health and other related matters." As such, ECOSOC oversees the work of 14 UN Specialised Agencies and 14 specialised commissions, which deal with issues such as drugs, crime prevention, and the status of women.

4. Secretariat:

The Secretariat, headed by the Secretary-General, offers administrative and substantive support to all of the programs of the UN, ranging from translation services to preparing studies on any topic the UN considers. Individuals working within the Secretariat are international civil servants, meaning that they pledge they will not follow the orders of their home state, but will instead work for the good of the international community.

5. International Court of Justice:
The International Court of Justice (ICJ), as the principal judicial organ of the UN, resolves disputes among States and gives advisory opinions to the UN. Judges of fifteen different nationalities make up the body of the ICJ, which meets in The Hague. In its 68 years of existence, the ICJ has been presented with about 200 cases, including both contentious, i.e., between states, such as the legality of U.S. involvement in Nicaragua, and advisory, i.e., on questions from the UN and its agencies.

UN Agencies
When the UN was founded, a deliberate decision was made to keep it decentralised. Thus, the political operations of the UN are kept separate from the cooperative and technical branches of the UN's specialised organisations. The specialised agencies are organisations with varying degrees of independence that agree to coordinate their work through agreements with ECOSOC. Each specialised agency negotiates its own agreement with ECOSOC, which leads to a very intricate system in which different organisations maintain different types of relationships with ECOSOC. This system has led to some severe criticism. Agencies, when not competing for resources, may duplicate one another's work.
Lacking true coordination, the policies of one agency may directly conflict with the policies and, collectively, the agencies often fail to put forth a comprehensive and coalesced approach to complicated international problems. On the other hand, having specialised agencies often allows the international community to address specific problems without specifically entering into political debates. This approach ideally allows for more coordination among States on common technical concerns.
Two of the most influential UN agencies are the ILO and the WHO:

International Labor Organisation:
The International Labor Organisation (ILO) was established in 1919 by the Treaty of Versailles, which also created the failed League of Nations, the predecessor of the UN. The ILO continued, despite the demise of the League of Nations, and in 1946, it became the first specialised agency of the UN. State Governments have one vote each, but Workers and Employers from every State also each have a vote to cast. The ILO concentrates on establishing labor standards on issues like working conditions and child labor.

ILO

World Health Organisation:
Established in 1948, the goal of the World Health Organisation (WHO) is the attainment by all peoples of the highest possible level of health. Their program of work includes monitoring and publicising disease outbreak information, supporting vaccination drives, and educating health workers. Of all the specialised agencies, the WHO has the largest budget and perhaps the most authority within its specified field.

WHO has the largest budget and perhaps the most authority within its specified field.

UN Related Organisations

Related organisations are similar to specialised agencies, but they have more independence. They do not report to the UN political bodies, though their work may be the subject of UN debates, and they are run under the rules of their own founding documents.

World Trade Organisation:

When the UN was first created, along with the World Bank and the IMF, the member states wanted to create a third organisation dealing exclusively with trade. Unfortunately, even though the states drafted a charter for an International Trade Organisation (ITO), several states, including the U.S., refused to ratify the charter and the ITO was dead before it was even properly started. While all of this was playing out politically, some states adopted the several rules of the ITO in a provisional agreement, expecting these rules to serve as a makeshift measure until the ITO came into existence. When the ITO failed, their 'provisional' agreement, the General Agreement on Tariffs and Trade, became the prevailing multilateral international trade agreement until the World Trade Organisation (WTO) was created in 1995.

While this makes the WTO a relatively young international organisation, its history stems from the trade negotiations handled previously under GATT. The WTO currently describes its duties as:

- Administering and acting as a forum for trade agreements;
- Settling trade disputes;
- Reviewing national trade policies; and
- Assisting developing countries in trade policy issues, through technical assistance and training programs.

IAEA:

Inspired by U.S. President Eisenhower's "Atoms for Peace" speech to the UN General Assembly, work drafting the statute of the International Atomic Energy Association (IAEA) began in 1955. When the statute was concluded in 1957, the IAEA assumed its role as the world's forum for cooperation in the field of nuclear science. The IAEA defines its work in three pillars: nuclear verification and security, safety, and technology transfer. It works not only to ensure that nuclear weapons are not proliferated among states, but it also assists in the peaceful uses of nuclear technology, such as nuclear medicine and energy projects. A key document of international law operating under the auspices of the IAEA is the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). The NPT holds stable the number of "legal" holders of nuclear weapons to five declared States, which coincides with the permanent seat holders of the UN Security Council – China, France, Russia, the U.S., and the U.K.

UN Programs and Funds

There are eight different UN programs and funds, which are financed through voluntary contributions rather than assessed contributions. Here, we want to present two of them:

UNICEF:

Seeing the devastation to Europe following the Second World War, the UN General Assembly created the UN International Children's Emergency Fund (UNICEF) in 1946 to care for the needs of children in the post-conflict situation. Though it originally was intended to be a short-term program, in 1950, the UN decided to extend the mandate of UNICEF permanently, and in doing so, shortened its name to the UN Children's Fund (still called UNICEF). UNICEF works to promote the welfare of children, including efforts in the areas of child health, education, and protection. One of its guiding documents is the Convention on the Rights of the Child, which is the most widely accepted human rights treaty in history.

UNHCR:

Similar to UNICEF, the UN High Commissioner for Refugees (UNHCR) was originally created to last only three years and address the problem of European refugees following World War II. However, as different conflicts around the world continued to create refugees, the mandate of the UNHCR was continually renewed. Today, UNHCR claims more than 7,000 personnel working in 123 countries, participating in a wide range of operational activities including legal protection, public affairs, logistics, and health. The 1951 Convention Relating to the Status of Refugees defines what a refugee is and what rights are accorded to them. While the UNHCR primarily works to safeguard these rights, its work also extends to reach internally displaced people who have been forced to move within their own country, and promoting the skills of refugees supporting themselves.

Regional Organisations

We will now discuss some of the more prominent regional organisations. States often share common regional interests and therefore find it easier to collaborate within a single region. Each organisation tends to be distinct according to the desires of its constituents.

Some regional organisations, like the European Union (EU), have such binding authority that they can overrule the national laws of one of their member states, while others, like the Association of Southeast Asian Nations (ASEAN), have based their organisation on the principles of non-intervention in domestic affairs.

European Union (EU):

The European Union (EU) is perhaps one of the most fully integrated and functioning regional organisations. It has its own judicial system, own currency, and has the ability to create a cohesive foreign policy. The EU includes the European Parliament (elected directly by the citizens of member states), the Council of the EU (representing governments of member states), the European Commission (serving as the executive body of the EU) and the Court of Justice (adjudicating matters under EU laws).

Association of Southeast Asian Nations (ASEAN):

The Association of Southeast Asian Nations (ASEAN), founded in 1967, currently counts ten Southeast Asian states as its members. The twin goals of ASEAN are to accelerate economic growth, social progress, and cultural development and to promote regional peace and security. ASEAN has played a critical role within the Southeast Asian region in establishing understandings related to free trade, nuclear weapons, and relations with other regional organisations.

Organisation of American States (OAS):

All 35 States of the American Hemisphere have ratified the Charter of the Organisation of American States (OAS). The OAS was officially established in 1948, though its foundation is based on a long history of cooperation within the Americas region. While the OAS has some similar institutional features to the EU, the American region has chosen not to integrate their political and economic systems as closely as the EU. While there is an Inter-American Court of Human Rights, an Inter-American Development Bank, and a Permanent Council, the OAS has not been given as much authority over domestic policy as the EU member states have vested in the EU.

Conclusion

As discussed earlier, international law has traditionally been based on the notion of state sovereignty. Recently, however, interactions between states have become more complex and require them to give up some of their sovereignty to have effective relations with each other.

Similarly, international law has begun to deal with issues traditionally inside the borders of individual states, such as human rights. These developments have become very controversial, however. International law is often criticised for a lack of legitimacy.

For example, the law is shaped to a large degree by politics within the international system. An action, though clearly illegal in terms of international law, may go unpunished due to overriding political considerations. Since the UN Charter gives veto authority to five Security Council members, who would presumptively veto any measures to enforce international law against their own state, the legitimacy of an organisation with such unequal application of the law must be questioned to a certain degree. When the most powerful players determine the rules of the game, how legitimate can these rules be? Furthermore, many countries routinely and clearly violate international human rights law. Why are they allowed to help set what the law is?

Indeed, unelected bodies wield significant power in the formulation of international law, from the UN Security Council to the dispute settlement body of the WTO. They make decisions and implement policies that can affect people around the world, but if those people are unhappy with these decisions, or if the choices made fail to reflect their interests, when the actors are in the international system, the people affected rarely have the power to hold them accountable. How can people trust international law and international organisations when there is no direct connection between them?

These questions are central to the question of whether the current rules of international law – the way they are made, and the way they are implemented – are a fair means of governing the world.

STRATEGIC MANAGEMENT

MARKETING ESSENTIALS

Introduction

Welcome to Marketing Essentials!

Most people link marketing to the area of consumer goods, where everything, from sponsoring a car to tv commercials, is a piece in the marketing process – all aimed at informing potential customers about a product or service.

However, marketing is part of almost every individual and business transaction. Marketing can focus on monetary business transactions (e.g. a software company representative trying to sell the company's software) or non-monetary transactions

So, what exactly is marketing? How can it be defined? The crucial point is, that marketing is not just a single TV commercial, email offer, or handshake introduction. Marketing is a process. The singular events and items just mentioned, are just small pieces of a company's or individual's marketing efforts. Each piece, in addition to strategy, planning, and analysis, plays a role in the overall marketing strategy. Philip Kotler, a world-renowned marketing author, consultant, and professor defines marketing in the following way:

Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures, and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best, and it designs and promotes the appropriate products and services. – Philip Kotler

In the marketing process, businesses examine their capabilities, and the needs, wants, and demands of the marketplace, to determine which customers they want to serve, and how they want their products to be perceived by these customers.

This involves:

- *Market segmentation and targeting:* identify the customers the business will try to serve and develop marketing plans and programs to reach them
- *Product positioning*: create the product's desired image in the customers' minds

Marketing programs and the marketers' decisions revolve around the traditional marketing mix variables, like product, price, place, and promotion.

Finally, businesses manage their marketing process by monitoring results obtained (e.g. sales or lack thereof) and adapting programs to stay on track, as customer and market conditions change. Marketing is used to create, keep and satisfy the customer.

Customer Needs

Although many variations of the definition of marketing exist, they all include the same primary determinant: Success is achieved by meeting the customer's needs. All the time, effort, and money put into marketing aim to meet the needs of the customer.

- The most *basic needs* are those inherent to all human beings. For example, people have physiologic needs, for food, water, and sleep, in addition to safety, social, and personal needs.
- As individuals grow in their environment, and into their own personality, these needs become *wants*. For example, when someone is hungry, perhaps the person does not want a piece of bread with water, but a pizza with juice, because he has seen a commercial that advertised pizza and juice.
- The next question is, whether a person can actually afford to purchase the item. If yes, this then creates a demand for the product. A want combined with the ability to pay creates *demand*.
- When multiple purchase options are available, a multitude of factors play into the consumer's decision, such as price, personal tastes, and preferences. Ultimately though, a consumer most likely chooses the option that provides the most *value.* Value is typically viewed as the subjective relationship between the perceived benefits and perceived costs of a product or service.

In the quest to meet customer needs, wants, and demand, while providing maximum value, companies employ a wide array of activities to make their marketing more effective. Through their own interactions with their customer base, as well as the feedback through now mostly online media, companies can gauge the pulse of their customers on a day-to-day, real-time basis.

Truly successful marketing organisations use this market intelligence, and their own operational efficiency, to adapt to any situation, while continually focusing their energy and strategy on meeting the customer's needs.

STP Process

The STP process is an important concept in the study and application of marketing. The STP process demonstrates the links between an overall market, and how a company chooses to compete in that market. STP stands for the three main steps: segmentation, targeting, and positioning.

Segmentation

Step 1: Segment your market

Your organisation, product, or brand can't be all things to all people. That's why you need to use market segmentation, and divide your customers into groups of people with common characteristics and needs. This allows you to tailor your approach, and meet each group's needs cost-effectively, which gives you a huge advantage over competitors who use a "one size fits all" approach. There are many ways to segment your target markets. For example, you can use the following approaches:

- *Demographic Segmentation* – By personal attributes, such as age, marital status, gender, ethnicity, sexuality, education, or occupation.
- *Geographic Segmentation* – By geographic location, such as country, region, state, city, or neighbourhood.
- *Psychographic Segmentation* – By personality traits, such as risk aversion, values, or lifestyle.
- *Behavioural Segmentation* – By personal behaviour, such as how people use the product, how loyal they are, or the benefits that they are looking for.

Market segmentation is the process of dividing a broad market into sub-groups of consumers (known as segments), based on some type of shared characteristics.

The Adventure Travel Company is an online travel agency that organises worldwide adventure vacations. It has split its customers into three segments because it's too costly to create different packages for more groups than three groups. Segment A is made up of young married couples, who are primarily interested in affordable, eco-friendly vacations, in exotic locations. Segment B consists of middle-class families, who want safe, family-friendly vacation packages, offering easy and fun trips with children. Segment C comprises upscale retirees, who are looking for stylish and luxurious vacations, in well-known locations, such as Paris and Rome.

Targeting

Step 2: Target your best customers

Next, you must decide which segments to target, by finding the most attractive ones. It can take a lot of effort to target a segment effectively. Choose only one segment to focus on, at any one time. There are several factors to consider here.

- First, look at the *profitability* of each segment. Which customer groups contribute most to your bottom line (i.e. profit)?
- Next, analyse the *size and potential growth* of each customer group. Is it large enough to be worth addressing? Is steady growth possible? And how does it compare with the other segments? (Make sure that you won't be reducing revenue by shifting your focus to a niche market that's too small.)
- Last, think carefully about how well your organisation can service this market. For example, are there any legal, technological, or social *barriers* that could have an impact? Conduct an environmental analysis to understand the opportunities and threats that might affect each segment.

Targeting involves concentrating your marketing efforts on one or a few key segments.

The Adventure Travel Company analyses the profits, revenue, and market size of each of its segments. Segment A has profits of $8,220,000, Segment B has profits of $4,360,000, and Segment C has profits of $3,430,000. Therefore, it decides to focus on Segment A, after confirming that the segment size is big enough.

Positioning

Step 3: Position your offering

In this last step, your goal is to identify how you want to position your product, to target the most valuable customer segments. Then, you can select the marketing mix that will be most effective for each segment. According to Michael Treacy and Fred Wiersema, two famous marketing experts, most successful firms fall into one of the following three categories:

- *Operationally excellent firms*: These firms maintain a strong competitive advantage, by operating exceptionally efficient. This enables the firms to provide reliable service to the customers at relatively low costs.
- *Customer intimate firms*: These firms excel in serving well the specific needs of the individual customer. There is less emphasis on efficiency, which is sacrificed, as the individual wishes of the customer receive exceptional attention.
- *Technologically excellent firms*: These firms produce the most advanced products currently available, with the latest technology, constantly maintaining leadership in innovation.

Positioning refers to the place that a brand occupies in the mind of the customers and how it is distinguished from products from competitors.

The Adventure Travel Company markets itself as the "best eco-vacation service for young married couples". It hosts a competition on various social media platforms to reach its desired market because these are the channels that these people favour. It asks customers to send in interesting pictures of past eco-vacations, and the best one wins an all-inclusive trip. The campaign goes viral, and thousands of people send in their photos, which helps build the Adventure Travel Company mailing list. The company then creates a monthly e-newsletter, full of eco-vacation destination profiles.

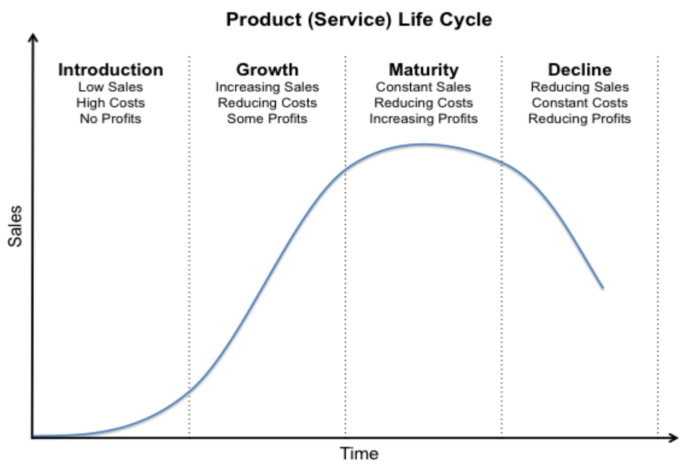
Marketing Mix (4P)

The *Marketing Mix* is a tool invented by the American professor Neil Borden, to describe the different types of choices organisations have, when bringing a product or service to market.
The basic principles of Borden's model were refined over the years until professor and author E. Jerome McCarthy reduced them to four elements, called the "*Four Ps*" of marketing.

Product

As a company evolves, it must continually assess the customers' needs, to know whether it is providing the right product. In this course (as in the world of marketing) "products" can be both tangible goods or intangible services. In assessing which customers it wants to serve, a company gains direction in terms of the products or services it will offer.

The "*product life cycle*" is a frequently used model for analysing a product. It identifies the stages of a product, by observing sales volumes over time. Traditionally, the product life cycle charts the following four stages:



1. Introduction Stage
This stage of the cycle could be the most expensive for a company launching a new product. The size of the market is still small, although it will be increasing. However, the cost of development, production, and marketing can be very high, especially if it's a competitive sector.
2. Growth Stage
The growth stage is typically characterised, by strong growth in sales and profits, and the company starts to benefit. This makes it possible for businesses to invest more money in the promotional activity, to maximise the potential of this stage.

3. Maturity Stage
During the maturity stage, the product is established, and the manufacturer's aim is now to maintain the market share they have built up. This is probably the most competitive time, for most products and businesses need to invest wisely in any marketing they undertake.
4. Decline Stage
Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. The cause of this shrinkage could be, the market becoming saturated (i.e. all the customers who might buy the product, have purchased it already), or the consumers switching to a different type of product.

The stages of a product life cycle are: 1. introduction, 2. growth, 3. maturity, 4. decline

It is important to assess the life cycle of the products you sell. If, for example, most of your revenues come from products in the mature or decline phases of their life cycles, you'll be hard-pressed to grow your sales in the teeth of stable or declining demand. At the other extreme, if you're too reliant on new products, the lack of an established cash cow to pay for those products' marketing and R&D could sink you. Keeping a good mix of new, refreshed, and established products can help stabilise your revenues, and give you predictable growth.

Price

Now more than ever, consumers are price-conscious in almost all their purchases. For companies trying to market their goods or services, understanding customers' needs and wants as they relate to the price variable, is essential to survival. A great product priced too high will struggle; while a product priced too low, might be devalued in the marketplace, and hamper the company's profit and growth potential. Thus, it is important for companies to find the right price point that meets both the customer's, and the company's needs.
Marketers generally choose from one of the following four pricing strategies, or create some successive combination of these strategies:

1. Penetration Pricing:
Marketers often use penetration pricing to introduce a new product. In a penetration strategy, marketers set the price of an item as low as possible, to generate the greatest possible volume of sales for that product. The company uses penetration pricing, to motivate consumers to make their purchase decision based on price.
2. Perceived Value Pricing:
Perceived value is a pricing strategy, where marketers set the price to how valuable the customer believes the item to be, and therefore how much the customer is willing to pay for it. The gap between the cost to produce and the perceived value is irrelevant to this strategy. For this reason, it is most often used for luxury goods, like prestige fragrances.
3. Skimming Pricing:
In a skimming strategy, marketers set the price of the new product as high as the market will allow. Once the population segment that is not price-sensitive has been saturated, or the product has reached almost all those consumers who were ever going to buy it, marketers progress to incorporate a different pricing strategy.
4. Target Return Pricing:
Some companies measure the success or failure of a product based on the relationship of how much revenue, or in some cases profit, a product generates in relation to how much it costs to make the product. This measure is called return on investment, or ROI.

The strategy a firm uses to price a product or service, can and does vary from firm to firm, and from product to product within a firm. Clearly, marketing professionals weigh a host of factors before choosing one strategy. Aside from the features and quality of the product itself, price is the single most powerful variable in determining the success or demise of a product.

Today, beyond promotions and discounts, companies use dynamic pricing strategies on the internet, to capture even greater profits. Dynamic pricing is a "real-time" change in price, based on customer preferences and past purchasing habits. However, having different prices for the same product can backfire, if consumers become aware of it.

Place

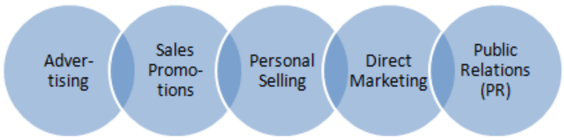
From a marketing perspective, place, also often labeled as "distribution", refers to any activity designed to create value and utility by making the product(s) available. In any manufacturing industry, products must be made, packaged, and distributed to the point of sale.

If a product is a mass consumer product, it needs to be available as far and wide as possible. On the other hand, if the product is a premium consumer product, it will be available only in select stores. Similarly, if the product is a business product, you need a team which interacts with businesses and makes the product available to them.
A company could make the best product, but if it cannot get that product into the hands of the customers, then the company's potential success is at risk.
Important questions are:

- Where do buyers look for your product or service?
- If they look in a store, what kind of store? A specialist boutique or in a supermarket, or both? Or online?
- How can you access the right distribution channels?
- Do you need to use a sales force? Or attend trade fairs? Or make online submissions?

Promotion

Finally, promotion is the marketing mix variable most commonly recognised by the consumer, given its visual nature, such as in television advertising. Promotion, however, is not just a short television commercial or a massive billboard. It functions as a company's communication arm, transmitting to consumers the other Ps – product, price, and place.
In today's world of digital and mobile technology, promotion takes many new forms while still including traditional media. Companies use a variety of outlets to promote their products (and/or services). The most common promotional methods used, include the following:



- *Advertising:*
  Advertising consists of the promotion of a given product, service, or message through mass media channels, such as newspapers, billboards, magazines, radio, internet, and television, and is used to both inform a given target market and persuade them, aiming at an increase in the use or sale of the company's products or services.
- *Sales promotions:*
  Sales promotions are found everywhere in society, such as 50% off, 0% financing, and the ever-popular "buy one, get one free." Sales promotions are used to persuade consumers, to buy the product or service at that specific moment in time, or while the sales promotion lasts.
- *Personal selling:*
  Personal selling involves a one-on-one interaction between an individual salesperson and a prospective client. Generally speaking, a company's sales force is meant for personal selling. For years, companies have employed sales personnel to develop solid relationships with the customers they serve.
- *Direct marketing:*
  Direct marketing is a much more focused and targeted promotion, than advertising. In the current market, direct marketing has greatly expanded its reach, because of the internet and mobile technology. These always-expanding channels, enable message customisation and personalised marketing messages to be directed at a specific person, place, and time.
- *Public relations (PR):*
  As its name implies, PR involves relating with the public, or those considered to be company stakeholders. PR efforts, such as press releases, sponsorship, and corporate literature, are used to generate positive attitudes and feelings, or goodwill, toward the company and its products and services.

Example: Starbucks Marketing Mix

Let's take a look at a short and simple example: the Marketing Mix of American coffee chain company Starbucks.
*Product***:** Starbucks specialises in coffee and related beverages. The company sells coffee and espresso beverages, cold blended beverages, as well as a selection of premium teas. In addition, the firm also sells coffee-related accessories and equipment.
*Price***:** Starbucks expects to maintain or lower the price of some of its most popular beverages, including certain espresso beverages; and, in most markets, its popular $1.50 tall brewed coffee. Furthermore, it anticipates raising prices of the labor-intensive, and larger-sized beverages.

*Place***:** Starbucks coffees and teas were available in approximately 39,000 grocery and warehouse club stores, 33,000 of which were in the US, and 5,500 in international markets. In many cities, it is impossible to walk several blocks, and not run into a Starbucks store. Proximity and accessibility are some of the company's greatest assets.
Promotion: The company has gone to great lengths to create a "community atmosphere" among premium coffee lovers. The Starbucks reward program allows members to earn a free drink after a certain number of purchases at participating Starbucks stores. In general, Starbucks stresses quality above price, and other features it could emphasise.

New Models: 7P and 4C

While the traditional marketing mix was predominately associated with the 4Ps of marketing, new models such as the *extended 7Ps model* of service marketing, and the *4Cs model* try to build upon the older 4Ps model, while increasing its explanatory power.

The Extended 7P's

In the late 70's it was widely acknowledged by marketers, that the marketing mix should be updated. This led to the creation of the Extended 7Ps Marketing Mix in 1981 by Booms & Bitner, which added three new elements to the 4 Ps model. The three new factors focus not on physical products, but services. That's why the 7Ps model is also called "service marketing mix.
The three new factors are:

- *People:*
  All companies are reliant on the people who run them, from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
- *Processes:*
  The delivery of your service is usually done with the customer present, therefore, how the service is delivered, is once again part of what the consumer is paying for.
- *Physical Evidence:*
  Almost all services include some physical elements, even if the product is intangible. For example, a travel agency would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs), they are still receiving a kind of "physical evidence".

Though existing since the 1980s, the 7 Ps are still widely taught, due to their fundamental logic, being sound in the marketing environment, and marketers' abilities to adapt the marketing mix to include changes, such as in communications (social media), updates in selling locations, or customers' expectations.

Example: Starbucks Marketing Mix II

Let's go back to our Starbucks example.
What is the company's marketing mix concerning People, Process and Physical Evidence?
People:
Starbucks has a massive workforce. In addition, it plans to recruit around 240,000 more people worldwide. It is an equal opportunity employer who is committed to building a diverse workforce. Starbucks is also known for its investment in employee training and development. It is a customer-centric company, where customers are the focal point.
Process:

- For costumers: Starbucks is often a very busy place, and employees need to serve customers as efficiently as possible. The interaction with the customers begins with a greeting by a Starbucks employee. Customers will then place their food/drink order and make the payment. This is then followed by the order being served, and a farewell being given.
- For business partners: The Starbuck Company's International special activities, includes retail stores with licensing operations in more than 55 countries. Like other big chains such as McDonald's, Burger King or Subway, Starbucks operates primarily through joint ventures and licensing arrangements, with consumer products business partners. This enables Starbucks to expand fast while keeping financial risks of store closures to a minimum.

Physical Evidence:
The famous Starbucks Logo (which is green and features a partially nude siren) has stayed largely unchanged since its origin. However, it has been altered to adjust to international sensibilities. Their logo is well-known and can be seen all over major cities. Their presence and recognisability are very important assets of the company.

The 4C Model

The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. This relatively new approach to marketing shifts the focus from producer and product to the consumers and their needs. Instead of the focus on mass marketing of the traditional 4P marketing model, the 4C marketing model is aimed at niche marketing.

The idea behind it is that the more familiar a company is with the consumer, the better it can align its strategies and the greater its conversion rates will be. Because it is the customers who form a company's marketing mix, the 4C marketing model makes them the main focus.

- *Consumer Solutions:*
  A company should only sell a product, that addresses consumer demand. So, marketers and business researchers should carefully study the consumers' wants and needs.
- *Customer Cost:*
  According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience and opportunity cost is also part of the cost of product ownership.
- *Convenience:*
  The product should be readily available to consumers. Marketers should strategically place the products, for example in several visible distribution points.
- *Communication:*
  According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open, two-way dialogue, with potential clients, based on their needs and wants.

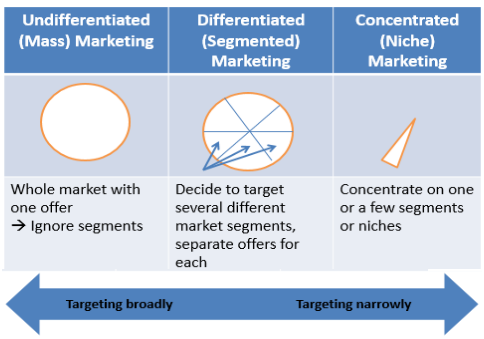
Whether you are using the 4Ps, the 7Ps, or the 4Cs, your marketing mix plan plays a vital role. It's important to devise a plan that balances profit, client satisfaction, brand recognition, and product availability. It is also extremely important to consider the overall "how" aspect, which will ultimately determine your success or failure.

Marketing Strategies

Identifying the right strategy to market your business can be challenging. How do you get your message to the right audience effectively, and how do you beat your competitors? In this chapter, we will discuss how to choose the best marketing strategy for your product or service.

Three Main Marketing Strategies

There are different types of marketing strategies, and every marketing manager should decide what's the appropriate one. This step is important because it has a big impact on the marketing mix. A manager needs to pick one of the following marketing strategies:



1. Mass Marketing

This is a "push" market strategy, in which segmentation is completely ignored, and an attempt is made to reach the largest possible number of potential customers. This technique relies on the persuasion potential of communication. Traditional mass marketing methods are radio, television, and print advertising.

Coca Cola's original marketing strategy was based on this format, at a time that they offered only one product, which they believed had universal appeal. However, now that Coca Cola has introduced other products, it has changed its marketing strategy to differentiated marketing.

2. Differentiated Marketing

This marketing strategy is also known as a multi-segment marketing strategy. Each customer segment is handled uniquely so that you target each customer segment with a different solution. This strategy keeps your team more focused and is more efficient in spending your marketing dollars.

An airline company offering first, business, and economy class tickets, with separate marketing programs to attract customers for each of the ticket types, is an example of a differentiated marketing strategy.

3. Concentrated Marketing
This strategy targets a single well-defined segment of the customer population. The marketing costs are low, but so is your sales potential. It is particularly effective for small companies with limited resources, as it does not believe in the use of mass production, mass distribution, and mass advertising.

The car-manufacturer Rolls Royce only targets the premium segment of the car market.

Perceptual Mapping

One of the biggest headaches for marketing professionals is deciding where a new product or service fits into the marketplace. In this lesson, we will show how your business can benefit from using perceptual maps to decide where to position your product or service against those of the competitors.

Perceptual mapping is a diagrammatic technique used by marketers, in an attempt to visually display the perceptions of potential customers. Typically, the position of a product, product line, brand, or company is displayed relative to their competition. This kind of visual representation can give valuable information about the current position, as well as the future strategy of a company.

The data for perceptual maps comes from customer surveys of products or services – customers are typically asked to rate their views on various criteria such as:

- Performance
- Ease of use
- Price
- Reliability
- Quality
- Customer support

Survey results are compiled and plotted on a graph according to their scale values. These graphs commonly have two dimensions. In the example below, customer perceptions of price versus quality for three different brands are displayed on a graph, providing an excellent visual representation of how brands can be differentiated in the minds of consumers.

Aside from price versus quality, perceptual maps can be made for a variety of product/service attributes. For example:

- Trucks: Towing capacity versus fuel consumption
- Landscaping services: Appearance versus effect on the environment
- Coffee: Price versus sustainability
- Food/drink: Taste versus sugar or salt content
- Hotels: Price versus location, amenities, etc.

As an example, let's say you think you have developed a winning recipe for a granola bar and wish to use perceptual mapping to help you decide where to position the product in the marketplace.

- Define the attributes that are of the highest importance to the consumer and will influence their purchasing decisions. In this example, we have decided to use taste and nutritional value as the determinant attributes.
- Compile a list of the competing products that will be included in your market survey and plotted on your perceptual map. Depending on the product a minimum of four or five competitors should be surveyed, preferably those with the largest market share.
- Develop a rating scale for the determinant attributes (in this case taste and nutrition) and distribute the survey to customers. A simple 1-5 rating works well.
- Once you have your perceptual map, you will need to determine where to position your product versus the competition – preferably where there appears to be a gap in the marketplace.

In the above example, you may decide that a segment of the market would prefer to sacrifice a degree of taste for more nutrition. Competing for head to head with another brand is generally risky, but the price may enter into the decision. You may be able to take market share from a competing product that has the same or similar attribute rankings if you are able to set the price of your product sufficiently low enough.

Marketing Performance

At some point, every company has to assess the success of its marketing activities. Marketing effectiveness is the measure of how effective a marketing strategy is in maximising their spending to achieve positive results, in both the short- and long-term.

Marketing Effectiveness

One way to assess whether a company successfully practices marketing is to assess its overall level of marketing effectiveness. Marketing effectiveness is based on five dimensions, including a firm's degree of holding to a customer-oriented philosophy, strategic marketing orientation, ability to gather relevant and timely market intelligence, level of integration of the marketing organisation, and operational efficiency.

1. Customer Orientation

Successful marketing is based on being able to meet customers' needs. Marketing is highly dependent on knowing, analysing, and meeting customer needs, as opposed to a singular focus on the product or general sales. Does the company respond quickly to the customers' issues or troubles?

2. Strategic Orientation

From a strategic point of view, the marketing professionals in a company must function with the long-term strategy and success in mind. This typically takes the form of formal marketing planning, and a culture of strategic, long-term thinking.

3. Market Intelligence

To serve the customers' needs, a company and its marketing professionals should obtain as much objective information as possible, regarding its status in the marketplace. In addition to having the necessary information for planning and resource allocation, from their own internal data and sources, key decision-makers should also have at their disposal up-to-date information about the external market.

4. Organisational Integration

Based on the competitive intelligence the company gains, a company must react in an integrated and efficient manner, to maintain its level of customer service, and if necessary, adjust its strategy. Integration focuses on how good marketing and other departments in an organisation communicate and work together.

5. Operational Efficiency

Operational efficiency speaks to how effective the organisation is at its business. How well are the decisions, made at the higher levels of marketing, filtered throughout the organisation? How responsive is the marketing department to problems and issues? How responsive is the organisation to customer requests?

Performance Measurement

Marketing performance metrics, or key performance indicators (KPIs), are useful not only for marketing professionals but also for non-marketing executives. From the chief executive officer to the vice president of sales, the senior management team needs marketing KPIs to measure how marketing activities and spending impact the company's bottom line. This is particularly important since companies are prone to reduce marketing budgets during economic downturns, downsizing, and mergers.

As marketers face more and more pressure to show a return on investment (ROI) on their activities, marketing performance metrics help measure the degree to which marketing spending contributes to profits. It also highlights how marketing contributes to initiatives in other areas of the organisation, such as sales and customer service.

Other reasons why companies evaluate marketing performance include:

- Monitoring the marketing department's progress towards its annual goals.
- Determining what areas of the marketing mix – product, price, place, and promotion – need modification or improvement to increase some aspect of performance.
- Assessing whether company goods, services, and ideas meet customer and stakeholder needs.
- Establishing marketing performance metrics is an essential part to help brands satisfy customers, establish a clear company image, be proactive in the market, and fully incorporate marketing into the company's overall business strategy.

To measure the effectiveness of a marketing campaign, a business needs to agree upon the goals of the campaigns, and the KPIs (key performance indicators) that it needs to track. For example, the goal of a campaign could be to increase a company's online brand reputation.

A good KPI to measure the success of this campaign might be, the number of website visitors.

Conclusion

The heart of your business success lies in its marketing effectiveness. Marketing does not start with a new idea or innovative product. It begins with the customers – these are the people who make your business successful, and this is where good marketing can really make a difference.

Marketing is about putting the right product in the right place, at the right time, and with the right price. The difficult part is doing this well, as you need to consider every aspect of your business plan.

Marketing enables you to position a product or service and to target different groups of customers more efficiently. It helps you to quickly zoom in on the most profitable parts of your business so that you can fully exploit the opportunities present. Start by segmenting your market into groups. Next, choose which of these groups you want to target. Last, identify how you want to position your product, based on the personality and behavior of your target market.

In this course, we have seen that marketing is not just a single advertisement or public relations campaign, but rather a continual process of creating value for customers, and meeting their needs. Through managing and adjusting the four primary marketing mix variables (product, price, place, and promotion), identifying appropriate customers (segmentation and targeting), and placing the desired product or service image in the minds of those customers (positioning), marketing professionals are putting their companies in a position to achieve success.

PRINCIPLES OF ECONOMICS

Introduction

Welcome to Principles of Economics!

In this course, you will learn the basic principles that drive the economy. The word "economy" comes from the Greek word oikonomos, which means "one who manages a household."

A household faces many decisions. It must decide which members of the household do which tasks and what each member gets in return: Who cooks dinner? Who does the laundry? Who gets the extra dessert at dinner? Who gets to choose what TV show to watch? In short, the household must allocate its *scarce resources* among its various members, taking into account each member's abilities, efforts, and desires.

Like a household, society faces many decisions. A society must decide what jobs will be done and who will do them. It needs some people to grow food, other people to make clothing, and still others to design computer software. Once a society has allocated people (as well as land, buildings, and machines) to various jobs, it must also allocate the output of goods and services that they produce. It must decide who will eat caviar and who will eat potatoes. It must decide who will drive a Ferrari and who will take the bus.

The management of society's resources is important because resources are scarce. *Scarcity* means that society has limited resources and therefore cannot produce all the goods and services people wish to have. Just as a household cannot give every member everything he or she wants, a society cannot give every individual the highest standard of living to which he or she might aspire.

Economics is the study of how society manages its scarce resources. In most societies, resources are allocated not by an all-powerful dictator but through the combined actions of millions of households and firms. Economists, therefore, study how people make decisions: how much they work, what they buy, how much they save, and how they invest their savings. Economists also study how people interact with one another. For instance, they examine how the multitude of buyers and sellers of a good together determine the price at which the good is sold and the quantity that is sold. Finally, economists analyse forces and trends that affect the economy as a whole, including the growth in average income, the fraction of the population that cannot find work, and the rate at which prices are rising.

Economics is the study of how society manages its scarce resources.

Mankiw's 10 Principles

Although the study of economics has many facets, the field is unified by several central ideas. In this course, we look at Ten Principles of Economics formulated by Gregory Mankiw. These ten principles are often labeled as the "main pillars" of economics.

Nicholas Gregory Mankiw, born in 1958, is an American economist and professor of Economics at Harvard University. He has stood out as a well-known writer, whose best-selling and intermediate-level textbooks of economics, "Principles of Economics" and "Macroeconomics" have sold over a million copies and been translated into seventy different languages.

Gregory Mankiw has written articles on a regular basis at both academic journals and newspapers, such as "The American Economic Review," "The New York Post" or "The Wall Street Post." He is also a usual participant in many academic and policy debates.

Mankiw's most important contributions have been in the fields of both microeconomics and macroeconomics. He has dealt with subjects such as consumer's behaviour, fiscal and monetary policy, financial markets behaviour, and the determination of prices. Although he is a conservative, his principles are part of every economics study program, and every manager should know these assumptions. Mankiw's ten principles are:

Individual Decision-Making
1. People Face Trade-offs
2. The Cost of Something
3. People Make Rational Decisions
4. People Respond to Incentives

How People Interact
5. Trading Is Usually Better
6. Markets Are Usually Good
7. Governments Can Help

The Economy as a Whole
8. A Country's Productivity
9. Printing Too Much Money
10. Inflation and Unemployment

We will cover each principle in detail over the next chapters.

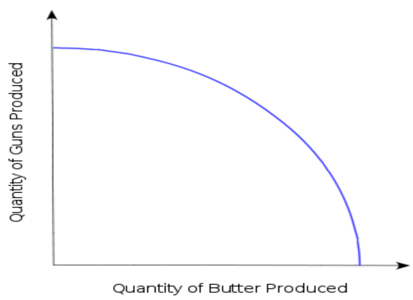
Individual Decision-Making

Whether we are talking about the economy of a city, a country, or of the whole world, an economy is just a group of people interacting with one another. Because the behaviour of an economy reflects the behaviour of the individuals who make up the economy, we start our study with four principles of individual decision making.

#1 People Face Trade-offs

The first lesson about making decisions is summarised in the adage "There is no such thing as a free lunch." To get one thing that we like, we usually have to give up another thing that we like. Making decisions requires trading off one goal against another.

Consider a student who must decide how to allocate her most valuable resource – her time. She can spend all of her time studying economics, she can spend all of her time studying psychology, or she can divide her time between the two fields. For every hour she studies one subject, she gives up an hour she could have used studying the other. And for every hour she spends studying, she gives up an hour that she could have spent napping, bike riding, watching TV, or working at her part-time job for some extra spending money.
When people are grouped into societies, they face different kinds of trade-offs. The classic trade-off is between "guns and butter." The more we spend on national defence (guns) to protect our shores from foreign aggressors, the less we can spend on consumer goods (butter) to raise our standard of living at home. This trade-off is often visually displayed in the following graph:



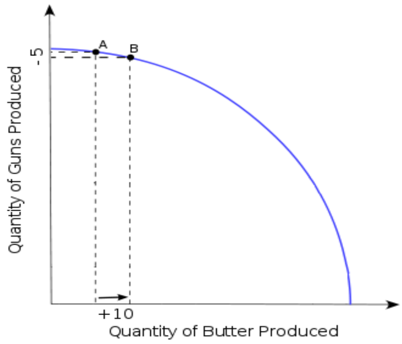
Another trade-off society faces is between efficiency and equity. *Efficiency* means that society is getting the maximum benefits from its scarce resources. *Equity* means that those benefits are distributed fairly among society's members. In other words, efficiency refers to the size of the economic pie, and equity refers to how the pie is divided. Often, when government policies are designed, these two goals conflict.
Consider, for instance, policies aimed at achieving a more equal distribution of economic well-being. Some of these policies, such as the welfare system or unemployment insurance, try to help the members of society who are most in need. Others, such as the individual income tax, ask the financially successful to contribute more than others to support the government. Although these policies have the benefit of achieving greater equity, they have a cost in terms of reduced efficiency. When the government redistributes income from the rich to the poor, it

reduces the reward for working hard; as a result, people work less and produce fewer goods and services. In other words, when the government tries to cut the economic pie into more equal slices, the pie gets smaller.
Recognising that people face trade-offs does not by itself tell us what decisions they will or should make. The poor should not be ignored just because helping them distorts work incentives. Nonetheless, acknowledging life's trade-offs is important because people are likely to make good decisions only if they understand the options that they have available.

#2 The Cost of Something

Because people face trade-offs, making decisions requires comparing the costs and benefits of alternative courses of action. In many cases, however, the cost of some action is not as obvious as it might first appear. Let's illustrate that challenge with an example:

Consider the decision to start studying and going to college. The benefit is intellectual enrichment and a lifetime of better job opportunities. But what is the cost? To answer this question, you might be tempted to add up the money you spend on tuition, books, room, and board. Yet this total does not truly represent what you give up to spend a year in college.



The first problem with this answer is that it includes some things that are not really the costs of going to college. Even if you quit school, you need a place to sleep and food to eat. Room and board are costs of going to college only to the extent that they are more expensive at college than elsewhere. Indeed, the cost of room and board at your school might be less than the rent and food expenses that you would pay living on your own. In this case, the savings on room and board are a benefit of going to college.
The second problem with this calculation of costs is that it ignores the largest cost of going to college – your time. When you spend a year listening to lectures, reading textbooks, and writing papers, you cannot spend that time working at a job. For most students, the wages given up to attend school are the largest single cost of their education.
The *opportunity cost* of an item is what you give up to get that item. When making any decision, such as whether to attend college, decision-makers should be aware of the opportunity costs that accompany each possible action. In fact, they usually are. College athletes who can earn millions if they drop out of school and play professional sports are well aware that their opportunity cost of college is very high. It is not surprising that they often decide that the benefit is not worth the cost.
One again, this can also be shown in a graph. Let's go back to our "guns and butter" example for a second: the cost of producing 10 more units of butter comes with a trade-off and leads to an opportunity cost of 5 units of guns.

The cost of something is what you give up to get it.

#3 Rational People

Economists normally assume that people are rational. *Rational people* systematically do the best they can to achieve their objectives. Rational behaviour refers to a decision-making process that is based on making choices that result in the optimal level of benefit for an individual.
As you study economics, you will encounter firms that decide how many workers to hire and how much of their product to manufacture and sell to maximise profits. You will encounter consumers who buy a bundle of goods and services to achieve the highest possible level of satisfaction, subject to their incomes and the prices of those goods and services.

When exams roll around, a student's decision is not between blowing them off or studying 24 hours a day but whether to spend an extra hour reviewing your notes instead of watching TV. Economists use the term *marginal changes* to describe small incremental adjustments to an existing plan of action. Keep in mind that margin means "edge," so marginal changes are adjustments around the edges of what you are doing. Rational people often make decisions by comparing *marginal benefit* and *marginal cost.*

For example, consider an airline deciding how much to charge passengers who fly standby. Suppose that flying a 200-seat plane across the United States costs the airline $100,000. In this case, the average cost of each seat is $100,000/200, which is $500. One might be tempted to conclude that the airline should never sell a ticket for less than $500. In fact, however, the airline can raise its profits by thinking at the margin. Imagine that a plane is about to take off with ten empty seats, and a standby passenger waiting at the gate will pay $300 for a seat. Should the airline sell the ticket? Of course it should. If the plane has empty seats, the cost of adding one more passenger is minuscule. Although the average cost of flying a passenger is $500, the marginal cost is merely the cost of the bag of peanuts and can of soda that the extra passenger will consume. As long as the standby passenger pays more than the marginal cost, selling the ticket is profitable.

A rational decision-maker takes an action if and only if the marginal benefit of the action exceeds the marginal cost. This principle can explain why airlines are willing to sell a ticket below average cost. It can take some time to get used to the logic of marginal thinking, but the study of economics will give you the opportunity to practice.

Rational people think at the margin.

#4 People Respond to Incentives

Incentives are crucial to analysing how markets work. An *incentive* is something (such as the prospect of a punishment or a reward) that induces a person to act. Because rational people make decisions by comparing costs and benefits, they respond to incentives.

For example, when the price of an apple rises, people decide to eat more pears and fewer apples because the cost of buying an apple is higher. At the same time, apple orchards decide to hire more workers and harvest more apples because the benefit of selling an apple is also higher. As we will see, the effect of a good's price on the behaviour of buyers and sellers in a market – in this case, the market for apples – is crucial for understanding how the economy allocates scarce resources.

Public policymakers should never forget about incentives because many policies change the costs or benefits that people face and, therefore, alter their behaviour. A tax on gasoline, for instance, encourages people to drive smaller, more fuel-efficient cars. That is one reason why people drive smaller cars in Europe, where gasoline taxes are high, than in the United States, where gasoline taxes are low. A gasoline tax also encourages people to take public transportation rather than drive and to live closer to where they work. If the tax were larger, more people would be driving hybrid cars, and if it were large enough, they would switch to electric cars.

When policymakers fail to consider how their policies affect incentives, they often end up with results they did not intend. Furthermore, when analysing any policy, we must consider not only the direct effects but also the indirect and sometimes less obvious effects that work through incentives. If the policy changes incentives, it will cause people to alter their behaviour.

How People Interact

The first four principles focussed on how individuals make decisions. However, many of our decisions affect not only ourselves but also other people. Therefore, the next three principles will shed light on how people interact with one another.

#5 Trading Is Better

The United States, Germany, China, and Japan are competitors in the world economy. In some ways, this is true because firms from each country produce many of the same goods. Volkswagen, Ford, and Toyota compete for the same customers in the market for automobiles.

Apple and Samsung compete for the same customers in the market for smartphones. Yet, it is easy to be misled when thinking about competition among countries. Trade between countries is not like a sports contest in which one side wins and the other side loses. In fact, the opposite is true: Trade between countries can make each country better off.

To see why, consider how trade affects your family. When a member of your family looks for a job, he or she competes against members of other families who are looking for jobs. Families also compete against one another

when they go shopping because each family wants to buy the best goods at the lowest prices. So in a sense, each family in the economy is competing with all other families.
Despite this competition, your family would not be better off isolating itself from all other families. If it did, your family would need to grow its own food, make its own clothes, and build its own home. Clearly, your family gains much from its ability to trade with others. Trade allows each person to specialise in the activities he or she does best, whether it is farming, sewing, or home building. By trading with others, people can buy a greater variety of goods and services at a lower cost.
Countries, as well as families, benefit from the ability to trade with one another. Trade allows countries to specialise in what they do best and to enjoy a greater variety of goods and services. The Japanese, as well as the French and the Egyptians and the Brazilians, are as much partners of Great Britain in the world economy as they are competitors.

Trade can make everyone better off.

#6 Markets Are Usually Good

The collapse of communism in the Soviet Union and Eastern Europe in the 1980s may be the most important change in the world during the past half-century. In communist countries, government officials (central planners) were responsible to determine the allocation of scarce resources in the economy.
Today, most countries that once had centrally planned economies have abandoned this system and are trying to develop market economies.
In a *market economy*, the decisions of a central planner are replaced by the decisions of millions of firms and households. Firms decide whom to hire and what to make. Households decide which firms to work for and what to buy with their incomes. These firms and households interact in the marketplace, where prices and self-interest guide their decisions.
At first glance, the success of market economies is puzzling. After all, in a market economy, no one is looking out for the economic well-being of society as a whole. Free markets contain many buyers and sellers of numerous goods and services, and all of them are interested primarily in their own well-being. Yet despite decentralised decision making and self-interested decision-makers, market economies have proven remarkably successful in organising an economic activity in a way that promotes overall economic well-being.
In his 1776 book An Inquiry into the Nature and Causes of the Wealth of Nations, economist Adam Smith made the most famous observation in all of economics: Households and firms interacting in markets act as if they are guided by an “invisible hand” that leads them to desirable market outcomes.
As you study economics, you will learn that prices are the instrument with which the invisible hand directs economic activity. In any market, buyers look at the price when determining how much to demand, and sellers look at the price when deciding how much to supply. As a result of the decisions that buyers and sellers make, market prices reflect both the value of a good to society and the cost to society of making the good. Smith’s great insight was that prices adjust to guide these individual buyers and sellers to reach outcomes that, in many cases, maximise the welfare of society as a whole.

Markets are usually a good way to organise economic activity.

#7 Governments Can Help

If the invisible hand of the market is so great, why do we need government? One reason we need government is that the invisible hand can only work if the government enforces the rules and maintains the institutions that are key to a market economy.
Most important, markets only work if *property rights* are enforced. A farmer won’t grow food if he expects his crop to be stolen and a restaurant won’t serve meals unless it is assured that customers will pay before they leave. We all rely on government-provided police and courts to enforce our rights over the things we produce – and the invisible hand counts on our ability to enforce our rights.
Yet there is another, more profound reason we need government: The invisible hand is powerful, but it is not omnipotent. Although markets are often a good way to organise economic activity, this rule has some important exceptions. There are two broad reasons for a government to intervene in the economy and change the allocation of resources that people would choose on their own: to promote efficiency and to promote equity. That is, most policies aim either to enlarge the economic pie or to change how the pie is divided.
Consider first the goal of efficiency. Although the invisible hand usually leads markets to allocate resources efficiently, this is not always the case. Economists use the term *market failure* to refer to a situation in which the market on its own fails to produce an efficient allocation of resources. One possible cause of market failure is an *externality*, which is the impact of one person’s actions on the well-being of a bystander. The classic example of an externality is pollution. Another possible cause of market failure is *market power*, which refers to the ability

of a single person (or small group) to unduly influence market prices. For example, if everyone in town needs water but there is only one well, the owner of the well is not subject to the rigorous competition with which the invisible hand normally keeps self-interest in check. In the presence of externalities or market power, well-designed public policy can enhance economic efficiency.

The invisible hand may also fail to ensure that economic prosperity is distributed equitably. A market economy rewards people according to their ability to produce things that other people are willing to pay for. The invisible hand does not ensure that everyone has sufficient food, decent clothing, and adequate healthcare. Many public policies, such as the welfare system, aim to achieve a more equitable distribution of economic well-being.

As you study economics, you will become a better judge of when a government policy is justifiable because it promotes efficiency or equity and when it is not.

Governments can sometimes improve market outcomes.

The Economy as a Whole

We already discussed how individuals make decisions and then looked at how people interact with one another. All these decisions and interactions together make up "the economy." Now, the last three principles focus on the workings of the economy as a whole.

#8 A Country's Productivity

The differences in living standards around the world are staggering. For example, the average income of an American household is much higher than that of developing nations. Not surprisingly, this considerable variation in average income is reflected in various measures of the quality of life.

Citizens of high-income countries can often benefit from a better infrastructure (transportation, education, healthcare, etc.) than citizens of low-income countries.

Changes in living standards over time are also substantial. In the United States, income has historically grown about 2 percent per year (after adjusting for changes in the cost of living). At this rate, average income doubles every 35 years. Over the past century, the average income has risen about eightfold.

What explains these large differences in living standards between different countries? The answer is surprisingly simple. Almost all variation in living standards is attributable to differences in countries' **productivity** – that is, the number of goods and services produced from each hour of a worker's time. In nations where workers can produce a large number of goods and services per unit of time, most people enjoy a high standard of living. Similarly, the growth rate of a nation's productivity determines the growth rate of its average income.

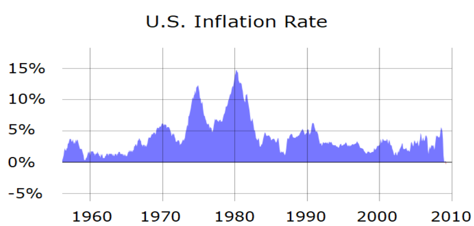
The relationship between productivity and living standards has profound implications for public policy. When thinking about how any policy will affect living standards, the key question is how it will affect our ability to produce goods and services. To boost living standards, policymakers need to raise productivity by ensuring that workers are well educated, have the tools needed to produce goods and services, and have access to the best available technology.

A country's standard of living depends on its ability to produce goods and services.

#9 Printing Too Much Money

In January 1921, a newspaper in Germany cost 0.30 marks. Less than two years later, in November 1922, the same newspaper cost 70,000,000 marks. All other prices in the economy rose by similar amounts. This is an extreme example of *inflation*, an increase in the overall level of prices in the economy.

Although the United States has never experienced inflation even close to that in Germany in the 1920s, inflation has at times been an economic problem. During the 1970s, for instance, the overall level of prices more than doubled, and U.S. President Gerald Ford called inflation "public enemy number one." By contrast, inflation in the 1990s was about 3 percent per year; at this rate, it would take more than 20 years for prices to double (see graph below for US inflation rates from 1960-2010).



Because high inflation imposes various costs on society, keeping inflation at a low level is a goal of economic policymakers around the world.
What causes inflation? In almost all cases of large or persistent inflation, the culprit is growth in the quantity of money. When a government creates large quantities of the nation's money, the value of the money falls. In Germany in the early 1920s, when prices were on average tripling every month, the quantity of money was also tripling every month. Although less dramatic, the economic history of the United States points to a similar conclusion: The high inflation of the 1970s was associated with rapid growth in the quantity of money, and the low inflation of the 1990s was associated with slow growth in the quantity of money.

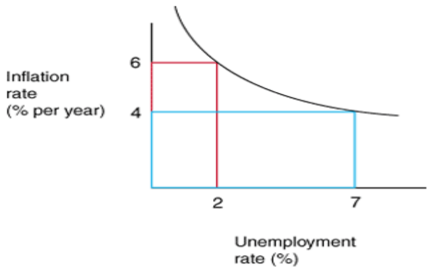
Prices rise when the government prints too much money.

#10 Inflation and Unemployment

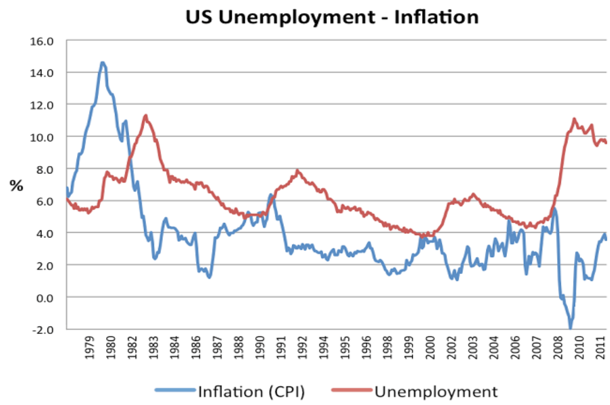
Although a higher level of prices is, in the long run, the primary effect of increasing the quantity of money, the short-run story is more complex and more controversial. Most economists describe the short-run effects of monetary injections as follows:

- Increasing the amount of money in the economy stimulates the overall level of spending and thus the demand for goods and services.
- Higher demand may over time cause firms to raise their prices, but in the meantime, it also encourages them to increase the number of goods and services they produce and to hire more workers to produce those goods and services.
- More hiring means lower unemployment.

This line of reasoning leads to one final economy-wide trade-off: a short-run trade-off between inflation and unemployment that can also be depicted as follows:



Although some economists still question these ideas, most accept that society faces a short-run trade-off between inflation and unemployment. This simply means that, over a period of a year or two, many economic policies push inflation and unemployment in opposite directions. Policymakers face this trade-off regardless of whether inflation and unemployment both start out at high levels (as they were in the early 1980s), at low levels (as they were in the late 1990s), or someplace in between. The following graph (which outlines US unemployment and inflation rates) shows that there is empirical evidence to back up this statement.



This short-run trade-off plays a key role in the analysis of the *business cycle* – the irregular and largely unpredictable fluctuations in economic activity, as measured by the production of goods and services or the number of people employed.

Policymakers can exploit the short-run trade-off between inflation and unemployment using various policy instruments. By changing the amount that the government spends, the amount it taxes, and the amount of money it prints, policymakers can influence the combination of inflation and unemployment that the economy experiences. Because these instruments of economic policy are potentially so powerful, how policymakers should use these instruments to control the economy, if at all, is a subject of continuing debate.

Society faces a short-run trade-off between inflation and unemployment.

Strengths and Weaknesses

Did Mankiw succeed in explaining the entire world economy with just 10 simple rules? Or is there more to our global economy and basic human interactions than Mankiw wants us to believe? In this chapter, we will briefly discuss what critics think about Mankiw's principles of economics.

Weaknesses

Does something complex like our global economy really follow 10 simple principles? Or isn't the world more complicated than that? And is Mankiw's view politically biased? One thing is for sure: not everyone agrees with Mankiw's ideas.

Critics argue that the author rarely includes a real discussion of primary sources and often slants toward the classical model of political economy, expounded most famously by Adam Smith. They criticise that Mankiw sees economic laws of the market as immutable "principles" of society — and thus makes his principles seem more like political ideology.

You might already have asked yourself if Mankiw's principles are really a good description of our daily lives. It might be a good idea to think about the following:

- Do the 10 principles ignore important parts that define our day-to-day actions? Whether you're with your friends, at home with your family, in school, or at work with your colleagues and business partners, values of cooperation, love, trust, sacrifice, and friendship are probably part of your lives. Why does Mankiw ignore these basic human principles of interaction and only focuses on his principles instead?
- Why does Mankiw ignore political power as an important concept? Political power is not even mentioned a single time in Mankiw's entire text. Yet most economists agree that political power plays an important role in explaining our global economy.

In other words, you might criticise that the whole market-centric approach of Mankiw's course is fundamentally at odds with how the world works in reality.

Given that Mankiw's ideas are at odds with the actual workings of social and economic life, and even help to perpetuate our societal and economic problems through producing this image of the individual as completely oriented toward market values and ideas, his critics claim that is time to expand the economic conversation towards more pluralism and away from hegemonic, ideologue set-in-stone "principles".

Strengths

No economic theory is perfect. No simple model can explain the complex world we live in without errors. However, we believe that it is both important and useful to learn Mankiw's 10 principles in order to better understand today's global economy.

The first edition of Gregory Mankiw's Principles of Economics (1997) initially targeted 20 percent of the economics textbook market for the first edition. Many experts opined that the publisher had a good chance of success. This makes Mankiw's principles one of the *most accessible and most-read modern economic ideas*. The success and popularity of Mankiw's principles are the results of several innovations in this book that help set it apart and put it in front of the several dozen other economic principles textbooks on the market.

Mankiw managed to make the complex theory of economics accessible to a larger audience. It is *easy to understand his principles* and follow his reasoning. He also managed to explain and include sub-topics such as consumer's behaviour, fiscal and monetary policy, financial markets behaviour, the determination of prices, and many more. This is the reason why his principles are part of every economics study program.

We can put it like this: you probably should not see Mankiw's principles as "the law of economics", but rather as your starting point into the exciting world of economics.

Conclusion

You now possess a solid foundation of what economics is all about. The field of economics is based on a few basic ideas that can be applied in many different situations. Throughout other courses, we may refer back to the Ten Principles of Economics.

The fundamental lessons about *individual decision making* are that

- people face trade-offs among alternative goals,
- cost of any action is measured in terms of foregone opportunities,
- rational people make decisions by comparing marginal costs and marginal benefits,
- and people change their behaviour in response to the incentives they face.

The fundamental lessons about *interactions among people* are that

- trade can be mutually beneficial,
- markets are usually a good way of coordinating trade among people,
- and the government can potentially improve market outcomes.

Finally, the fundamental lessons about the *economy as a whole* are that

- productivity is the ultimate source of living standards,
- money growth is the ultimate source of inflation,
- and society faces a short-run trade-off between inflation and unemployment.

INNOVATION MANAGEMENT

BASICS OF INNOVATION MANAGEMENT

Introduction

Innovation has been one of the hottest topics of the last couple of decades and innovation management is a source of much debate: Some argue that the very definition of innovation means that it can't be managed, whereas others believe in building systems for the purpose of creating more innovation.
As you can probably guess, the reality isn't as black and white. So, let's first take a step back and consider what the term means. Most dictionaries simply refer to innovation as being "the introduction of something new". This isn't the same as simply inventing something new, such as a product, as it also needs to be launched and introduced to the world.
As is evident from the definition, there's an endless variety of different kinds of innovations. This is the root cause for many of the disagreements related to innovation: people often use the generic term when they really are referring to a small subset of innovation, and even then, strictly from the point-of-view of their own organisation and past experience.
Innovation management refers to the handling of all the activities needed to "introduce something new" – which in practice means things like coming up with ideas, developing, prioritising and implementing them, as well as putting them into practice, for example by launching new products, or by introducing new internal processes.

Innovation management is the process by which innovation is managed or dealt with by affecting certain decisions, practices and actions, as a response to an opportunity.
Why is innovation management needed? It is necessary for a multitude of reasons. They are:

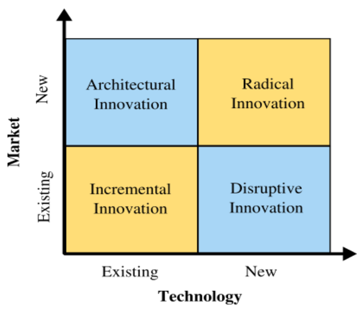
- *To map the innovation process***.** Innovation management creates a bird's eye view of the entire innovation process and enables the top management to identify areas of improvement. It also helps identify newer ideas and assess whether they are in sync with the big-picture view of the company.
- *To forecast market conditions better.* Innovation management creates a foresight of the market. It helps forecast changes in the market, identifies newer market segments and monitors customer trends. It also detects competition on the existing business models and charts out measures to face it.
- *To ensure proper timing of market introduction* and reduce risks of delayed innovation. Faulty timing of innovative steps is one of the main reasons for the failure of a project. When a product or service introduction is delayed, it loses its competitive edge over its competitors and is doomed to failure.

Basics of Innovation

It is remarkable how many people are under the false assumption that companies are either innovative or not. This is a very simplistic perspective that does not take into account the different key elements of innovation management as well as the types of innovations that companies can pursue.

Innovation Matrix

You've probably heard people talk about disruptive innovation, incremental innovation or radical innovation. These are all terms people use to classify innovation into different types. For this chapter, let's break down innovation into two dimensions: Technology and Market, which gives us the following four types of innovation:



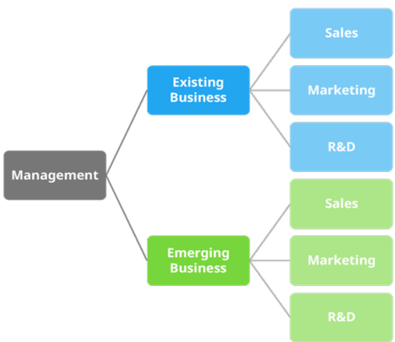
1. Incremental Innovation:
Incremental Innovation is the most common form of innovation. It utilises your existing technology and increases value to the customer (features, design changes, etc.) within your existing market. Almost all companies engage in incremental innovation in one form or another. Examples include adding new features to existing products or services or even removing features (value through simplification).

2. Disruptive Innovation:
Disruptive innovations shape a new market. Disruptive innovation, also known as stealth innovation, involves applying new technology or processes to your company's current market. It is stealthy in nature since newer tech will often be inferior to existing market technology. There are quite a few examples of disruptive innovation, one of the more prominent being Apple's iPhone disruption of the mobile phone market.
3. Architectural Innovation:
Architectural innovation is simply taking the lessons, skills and overall technology and applying them within a different market. Most of the time, the risk involved in architectural innovation is low due to the reliance and reintroduction of proven technology. Though most of the time it requires tweaking to match the requirements of the new market.
4. Radical Innovation:
Radical innovation is what we think of mostly when considering innovation. It gives birth to new industries (or swallows existing ones) and involves creating revolutionary technology. The airplane, for example, was not the first mode of transportation, but it is revolutionary as it allowed commercialised air travel to develop and prosper.
The four different types of innovation mentioned here – Incremental, Disruptive, Architectural and Radical – help illustrate the various ways that companies can innovate. There are more ways to innovate than these four. However, you can use the innovation matrix and the four categories to clarify the concepts to yourself, as well as to classify the initiatives in your innovation portfolio.

Key Elements

The simplest way to understand the topic is to break it down and discuss each of the key aspects related to innovation management separately. This chapter introduces the four innovation management aspects that we typically use: Capabilities, Structures, Culture, and Strategy.

1. Capabilities
Capabilities cover the different *abilities and resources* the organisation has for creating and managing innovation. The capabilities aspect revolves primarily around people, as innovation relies heavily on the abilities of both individuals and teams collectively.
It refers first and foremost to the abilities, unique insights, know-how and practical skills of the people working for the organisation. However, it also covers areas, such as the information capital and tacit knowledge of the organisation, as well as their other resources and available financial capital, all of which might be required to create innovation.
2. Structures
Structures *enable the effective use of the capabilities*. If every new innovative initiative is forced to go through the same processes as minor changes to the existing organisation, it's very likely that many innovations will be smothered.
One of the more popular trends to create a more innovative organisation is to work towards building a so-called *ambidextrous organisation.* This simply means that the organisation is structured in a way that allows new businesses to be independent of the pre-existing ones:



3. Culture
Culture is what *enables the organisation to acquire the capabilities related to people.* With the right kind of pro-innovation culture, the organisation is much more likely to be able to recruit and keep the right people in the organisation. The appropriate pro-innovation culture emphasises the need to always think of ways to get better, values speed as well as learning, and considers failure as just a normal part of the process for creating anything new.

4. Strategy
A strategy is, simply put, the plan the organisation has for achieving long-term success. But what's critical to understand is that *strategy is ultimately about making a choice* between a number of feasible options to have the best chance of "winning" and this choice shouldn't obviously be separated from the execution. In essence, innovation is one of the means to achieving your strategic goals.
Thus, the key is for your innovation activities to be aligned with your strategy, which, however, is often easier said than done. In practice, you need to provide the organisation with enough freedom to actually innovate, but also still need to take into account certain practical constraints, such as your strategic focus, available resources, and your own capabilities.
All four aspects affect the organisation's ability to innovate and manage innovation, which is exactly why improving it is rarely a straightforward exercise with a simple solution. If you want to be effective at managing innovation, it's paramount for you to be able to understand both the big picture, as well as the individual components that make it up.

Types of Innovation

While The Innovation Matrix is a solid framework for classifying innovation from the market point of view, another perspective is to look at the source of innovation. Usually, innovation falls into one of the following three categories:

1. Business Model Innovation:
Business model innovation is all about the ability to rethink your current business to find new revenue streams and maintain a competitive advantage. It can be done either by improving an existing business model or by looking for new ways to provide value. Many previously successful company has failed in business model innovation because instead of envisioning possible future innovations, they've been too busy with their current operations.
2. Technology Innovation:
A general misconception is that innovation breakthroughs are always based on fascinating and costly technologies. However, most of the great innovations still utilise new technology. For many industries, technology is the major player when seeking a competitive edge and increasing profit margins. Technological innovation means generating new ideas based on technology, capability or knowledge to produce a new solution to a real or perceived need and to develop this solution into a viable entity.
3. Marketing Innovation:
Marketing innovation is about finding new unique channels and tactics to promote your offering but also the ability to find new markets and create new value propositions that others aren't able to (or do not want to) provide. This can be done for example by launching your technology, product or business model in new unconventional places or by promoting your existing offering in a way it hasn't been promoted before.

Innovation Concepts

Having established that innovation management is a complex field, it helps to understand some of its widely accepted theories, models and concepts. While none of them have the ability to capture the essence of innovation by themselves, they each make excellent points about innovation.

Innovator's Dilemma

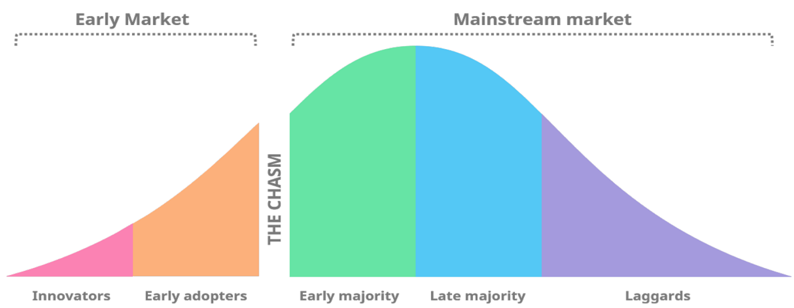
The Innovator's Dilemma is the decision that businesses must make between catering to their customers' current needs or adopting new innovations and technologies which will answer their future needs. This is a constant problem for companies and has already claimed a long list of victims. Although the Innovator's Dilemma was first popularised in a book written by Harvard professor Clayton Christensen in 1997, his warning still rings true today.
Businesses that listen too closely to customer feedback can easily fall into the trap of stagnation, even though they reacted directly to what their consumers wanted – or at least what they thought they wanted. Although market research is a very valuable tool, it can only tell innovators so much because consumers aren't necessarily the best judges of what they want.
Henry Ford, American automobile manufacturer and founder of the Ford Motor Company, summed this up perfectly when he purportedly said:

"If I had asked people what they wanted, they would have said faster horses."
Although it's uncertain whether or not he actually said this, it emphasises the point that when it comes to new ventures, the customer isn't always right.

Businesses are constantly faced with two choices – they can either continue doing what they know is currently working well (exploit the markets), or adopt disruptive advancements in an attempt to stay relevant (explore the markets). The predicament is faced by all companies and is only going to intensify as innovative technology continues to expand.
In academic literature, this phenomena is described as organisational ambidexterity or simply Explore-Exploit dilemma. "Being ambidextrous" is the ability to successfully combine the exploiting of all the investments that have been made to date and constantly exploring new areas and opportunities. This calls for dual thinking and organisational design to optimise the two orientations. The right balance between exploiting and exploring is hard, but extremely important for a company's survival in the economic competition.

Technology Adoption Lifecycle

The Technology Adoption Lifecycle was first introduced by American organisational theorist Geoffrey Moore in his 1991 book Crossing the Chasm. It builds on the research on the diffusion of innovations and explains why companies with disruptively innovative products (and/or technology) often have a hard time reaching success with the mainstream market.
The basic idea is that the entire market can be represented with a bell curve that can be divided into segments based on how eager the customers are to adopt new technology with each segment having their own sets of expectations and desires.



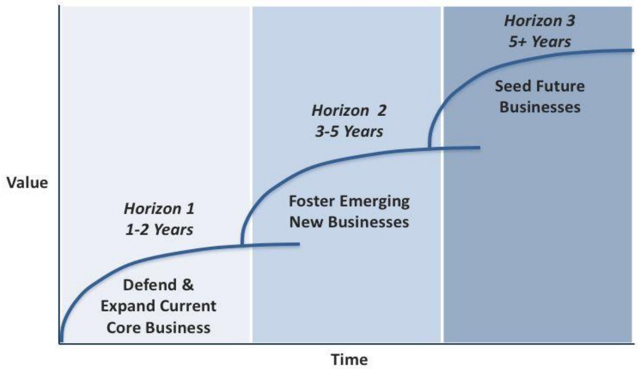
Other innovators are usually the first ones to adopt new innovations. They want to be the first ones to try new things and are willing to tinker by themselves to make things work. After these initial innovators, there is a slightly larger segment of early adopters who aren't quite as willing (or able) to tinker but are otherwise almost as eager to get their hands on new technology.
Innovators and early adopters are continuously looking for ways to do things better and consider technology and innovations as sources of competitive advantage. As a result, they are often willing to pay a premium for new innovations, even though they might be lacking, or even defective, in certain ways.
The majority, however, is much more pragmatic. Even the early majority is much more risk-averse; they are looking for proven solutions at a reasonable price.

The chasm is the huge difference between the expectations of the early adopters and the expectation of the early majority.
For companies to be able to cross the chasm, they need to find new ways to make their products more attractive in the eyes of the early majority.
Developing the product and changing the way you talk about it to suit the majority can often mean making compromises that alienate the innovators and the early adopters that allowed your early success. This can be a very painful process that many companies find difficult, not only psychologically, but also in practice.
However, if you are able to make the leap, you are likely to be able to have a more scalable, and often a more profitable business, as the majority is where the economies of scale start to kick in.
This concept is very closely linked to the innovator's dilemma. For a disruptive innovation to be successful and find ways to take over the mainstream market from the incumbent, they need to figure out ways to cross the chasm.

Three Horizons of Growth

Created by McKinsey & Company, the "Three Horizons of Growth" is quite a popular model for helping organisations structure their initiatives and find an appropriate balance between short-term and long-term projects in their portfolio.
The basic idea of the model is quite simple: for a company to maximise its growth potential, it needs to simultaneously work on projects within different horizons:

If you focus solely on incrementally improving your existing business with horizon 1 initiatives, you might see solid short-term increases in your numbers, but will ultimately sacrifice the long-term growth of the company in doing so.
The reverse applies if you focus solely on disruptive innovation of horizon 3 and completely neglect your current business. You might have a bright future, but you might be out of business before you ever get there.



To maximise growth potential, you need to simultaneously work on projects for all three horizons.

By finding the right balance, you'll not only maximise your growth potential but also decrease the risk of your business portfolio.

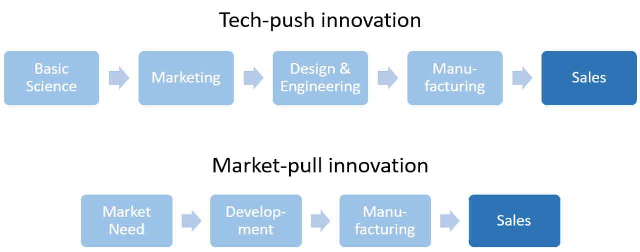
Innovation Processes

Different companies have very different processes for managing innovation. On one side, there are those who believe in *agile and lean, often pull-based processes,* and on the other side, there are those who support more *rigid and formal, mostly push-based processes* for managing innovation.

Push vs. Pull

The first question is whether the organisations operate on a more push or pull-oriented manner in their innovation work:

- *Push-based models* to innovation are more *internally and technologically oriented.* Push-oriented organisations know (or at least assume to know) the challenges of the market, and the users, and are simply looking for the best ways to address these challenges, usually with new technology. Classic examples of push-based organisations are Apple or IKEA.
- *Pull-based models*, on the other hand, are more *customer and market-oriented.* Pull-oriented organisations are looking for ways to adapt to changing markets and customer demand. They are usually focused more on listening to customers, learning from them and on moving fast.



One of the advantages of being pull-based is that it typically requires much less upfront investment than being push-based due to faster *time to market* and smaller *marketing budgets*. This, naturally, is one of the key reasons for many startups being pull-based organisations.

Phase-Gate Process

The Phase-Gate Process (also known as the "the waterfall process" under certain circumstances) is probably the single most famous process for product innovation with variations of the process having been around since the 1940s.

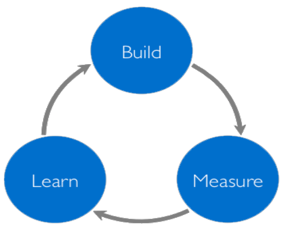
The model is based on the undeniable fact that there are always more ideas than there are resources. The point is that *each idea will have to go through certain pre-determined phases* in their development. At the end of each phase, there is a "gate". When the idea reaches a gate, it will be assessed by using certain pre-determined criteria. If the idea is able to pass the assessment, it will receive additional investment and be able to proceed to the next phase.

This process helps eliminate obviously bad ideas and is quite effective at allocating resources to ideas that seem to be progressing well. It helps ensure that every innovation matches the goals and standards of the management. The challenge with this approach is that, by definition, standardisation of the phases and the metrics easily leads to only approving similar ideas, often the incremental and easily understandable ones. The phase-gate is a perfect example of a process that can easily lead to the innovator's dilemma under certain circumstances. By carefully considering the phases of the process and the metrics used for the gates, these challenges can, however, be alleviated.

The Phase-Gate Process often works well in situations where the ideas are similar by nature, the operating environment is highly predictable, and the challenges are more technical in nature.
While the phase-gate model is typically used with the traditional waterfall approach, for which it was designed, it can also be used in an iterative manner with agile methods.

Lean Startup

On the other end of the spectrum from the phase-gate, there are people who believe that the best innovations come from simply equipping smart people with enough time and the right resources to make their ideas happen.
The majority of processes are somewhere in between these two, so we'll share another model that many organisations have adopted recently, this one closer to the less formal side of the spectrum, namely the Lean startup. The *Build-Measure-Learn Feedback Loop* is the main component of the Lean Startup Model for building and testing new ideas. The core ideology behind Build-Measure-Learn Feedback Loop is to launch a new idea or concept to the market as quickly as possible to gain experience and gather feedback for further improvement.



It is much more pull-oriented than the phase-gate and is designed specifically to address market risk more than technology risk. The main idea of the Lean startup model is to rapidly test and validate the assumptions related to the product-market fit between your innovation and your target market in order to learn and adapt as quickly as possible.
This obviously makes the approach well suited for organisations operating in an unpredictable, complex or rapidly changing environment but is perhaps not ideal for the kind of organisations that the phase-gate approach is well suited for, such as those in highly regulated industries.
Another important component is the *Minimum Viable Product (MVP).* The MVP is defined as the version of a new product a team uses to collect the maximum amount of validated learning about customers with the least effort. In other words, the MVP is a basic version with the smallest number of capabilities that will deliver enough

value to potential paying customers who will give you feedback. Introducing a minimum viable product is the opposite of taking a lot of time to build a finished product, hoping the customers to come to you.

Open Innovation

Recently, growing attention has been devoted to the concept of Open Innovation – both in academia as well as in practice. The distinction between open innovation and closed innovation is determined by the way in which innovation is created:

- Closed innovation is based on the view that innovations are developed by companies themselves. From the generation of ideas to development and marketing, the innovation process takes place exclusively within the company.
- Open innovation means opening up the innovation process beyond company boundaries to increase innovation potential through active use of the environment. Innovation therefore arises through the interaction of internal and external ideas, technologies, and processes.

Henry Chesbrough, Director of the Center for Open Innovation of the at the University of California, coined the term and described how companies have shifted from closed innovation processes towards a more open way of innovating. He defined the term as follows:

Open Innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas. Open innovation offers several benefits to companies:

- Reduced costs of conducting research and development
- Potential for improvement in development productivity
- Synergism between internal and external innovations

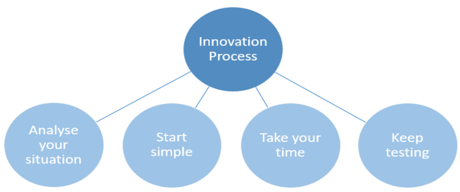
However, open innovation is also associated with some risks:

- Possibility of revealing information not intended for sharing
- Losing the competitive advantage by revealing intellectual property
- Increased complexity of controlling innovation

Open innovation is not completely new: In the 17th century, Europe's six seafaring nations initiated a competition to find a precise way to navigate the seas. A more accurate method of measuring time to find longitude, to be exact. The competition inspired the great minds of the time – including Galileo Galilei – to come up with innovative solutions to the dilemma. This was a very early form of open innovation.

The Right Process

The process of figuring out the right innovation management process, or processes, can be a challenging effort. As innovation is, by nature, highly unpredictable, the only way to see how a certain process could work for you is to try it out in real life. Hopefully, with the help of our four tips you can get more out of your decision-making process:



1. Analyse your situation:
Are you working in a small or large organisation? What are the most important strategic goals in your industry? Have a look at the existing case examples, as this helps you to learn from other's successes and possible mistakes they've made down the road. Start with those that have been proven to work for the types of industries and organisations you're operating in.
*2. Start simple***:**
Don't make things too difficult for yourself in the beginning. Unless you already have a clear vision for where you want to start from, it's better to start with a simple innovation management process.
3. Take your time:

You don't need to announce company-wide processes right away! Start by testing these processes first in smaller units or through shorter trials especially if a large organisation is in question. Through trial and error, start doing wider trials and implementations.
4. Keep testing:
If you're working in a larger organisation, you'll almost inevitably need more than just a single process for the different types of innovations in different parts of the organisation, so there's no point in trying to fit everything to a single innovation pipeline.

Just start simple in one area of the organisation and adapt as you learn how the process works. There's no point in being concerned about getting everything just right from the beginning as it's very unlikely to happen.

Measuring Innovation (KPIs)

While many aspects related to innovation are difficult to measure, there are a number of metrics, often referred to as KPIs (Key Performance Indicators), that are commonly used to measure innovation activities. In general, there are two types of metrics that we can use for measuring: input and output.

Input Metrics

As the name indicates, input metrics, are used for measuring your investments. An investment can be for example *money, time or talent* devoted to a specific activity related to innovation management.

Measuring inputs is a great way to gain insight into how your resource allocation or innovation portfolio matches your strategy and can be considered to also cover metrics regarding the process itself: e.g. how many ideas are passing through to a certain phase.
Some examples of input metrics include:

- Research & Development (R&D) spend as a percentage of sales
- The number of innovation projects started
- The number of new ideas in the pipeline
- Number of new employees in R&D

In general, input metrics are a great starting point for measuring innovation because they are responsive. When measuring inputs, you're able to react to changes sooner. It is, however, important to keep in mind that *input doesn't guarantee output.* Even if you had all the possible resources in the world, you may still never see the results you want if you're not doing enough of the right things or aren't doing them well enough.

Output Metrics

The other end of the spectrum is output metrics, which is a term that is used to refer to your returns. In other words, output metrics measure the *results of your innovation investments.* As such, they indicate if your investments are actually turning into something useful.

Here are some examples of output metrics**:**

- Number of new products launched in X amount of time
- Revenue/profit growth from new products
- ROI of innovation activities
- Actual vs. targeted break-even time for new products

In general, organisations are more likely to rely on outputs than inputs. Although outputs are satisfying to measure, they are typically less actionable as they often *don't tell you what went well or what went wrong.* In addition, changes in output metrics show only a certain time after the activities have taken place, which especially in the case of disruptive innovation, can be quite a long time.
Therefore, it might not be smart to focus on measuring ROI too early. Instead, in the beginning, it would be smarter to assess the time horizon, i.e. how long it will take to break-even. In later stages, it makes more sense to pay closer attention to outputs.

Choosing Your Metrics

Every organisation is different, so there's no such things as a universally applicable set of innovation metrics that would work for everyone. Regardless, you get what you measure, in both good and bad, which is why it's important to choose metrics that best suit your situation.

For example, if your innovation unit focuses solely on short-term revenue goals and you hold people accountable for those goals, people will find ways to create more revenue. Some of them might just work harder and "do the right thing", but others will find ways to reach the goals in less beneficial ways, such as by shifting focus towards scaling sales and marketing prior to having a solid product-market fit for their innovation.

Here are a few tips for getting the most out of your KPIs:

- Find a good balance of input and output metrics.
- Focus on just a few metrics at a time and set goals using just these metrics.
- In general, the more risk and uncertainty you face, the more you should focus on input metrics as the correlation to output metrics is difficult to see.
- Don't try to force the same metrics for everyone in the organisation.
- It's better to start with too few than too many metrics.
- Don't be afraid to change the metrics once you learn more.

Success or Failure?

Managing innovation is not easy – many inaccuracies creep up in the innovation management process. However, taking some risks is necessary in today's increasingly complex business world. A successful path can be charted if you avoid some common mistakes and follow some essential guidelines:

Key Success Factors

The key success factors are – more or less – the opposite of the named challenges and a combination of many of the points we've made previously in this course. Here we want to summarise the six most important points you should remember:

1. Continuous Improvement

This first point is probably the most important one: If you improve your infrastructure, processes, or services on a daily basis, you'll end up with more time to focus on value creation. If you've also been working to improve your individual skills during this time, you'll be much more productive with the time you have. A mindset of continuous improvement is also tremendously helpful for cultivating a culture that's focused on getting better and innovating.

2. Value Creation

Many innovators are in the pursuit of chasing their vision, which can sometimes lead them to, unfortunately, lose sight of the end goal: creating value for your customers. As long as you know your market and your customers while continuing to focus on creating as much value for them as possible with your innovations, you're likely to go in the right direction.

3. The Lean Startup

In general, speed is of the essence when it comes to innovation. The Lean Startup we discussed in this course is a great framework for a number of reasons, but the key reason for its success is the build-measure-learn feedback loop. The aim is to continuously improve your offering so that you eventually deliver precisely what your customers want.

4. Allocation of Resources

Any organisation needs to be clear and purposeful when it comes to resource allocation. For an organisation to be successful, they should identify their willingness to take a risk and their desired level of returns, as well as the timeline for that, and use them to craft a strategy. Once the strategy is in place, one should continuously seek to monitor progress and make sure that the resources are still appropriately allocated.

5. Empowering Culture

The days of heroic single inventors are, for the most part, behind us. The vast majority of innovation created is these days the result of a team of innovators. Without the right mix of talent, along with the right culture, it's increasingly difficult for teams to come up with innovations in today's increasingly complex world.

6. Focus

Just like a lack of focus can easily be one of the key challenges preventing innovation, remaining focused is one of the key success factors for creating them. You are guaranteed to increase your odds of being successful when you're focused. To do something that others can't, you have to be willing to put in the work that others don't.

Key Challenges

Innovation is very difficult to get right, and every organisation is guaranteed to run into a number of different challenges on their journey to become more innovative. We'll outline four of the more common challenges below so that you're aware of them and can start to watch out for them in your organisation:

*1. Oppressive Hierarchy***:**

If an organisation has a lot of hierarchy, and the management has a very top-down, often micro-managerial, approach to their job, it is likely to lead to employees becoming more passive. You'll recognise that this is an issue if you hear people say things like "This isn't what I get paid for". Innovation, by definition, is all about exceeding expectations and current limitations.

*2. Poor Culture***:**

A person has a growth mindset if they think that who they are isn't just something that's passed on to them but is instead something they can work on, for example by acquiring new skills and learning new things. The same goes for the organisational culture. Without a culture that's growth-oriented, the organisation is simply highly unlikely to innovate.

3. Lack of Resources & Infrastructure:

Without any processes, resources or infrastructure in place for implementing ideas, it will be difficult for people to achieve impact, even if they wanted to.

As a manager, it's your job to do the best you can to provide your team with the resources and capabilities they need to be successful and the same most certainly applies for innovation.

4. Lack of Vision & Focus:

Great innovations are often born from people having a vision for creating something that doesn't yet exist, and the same applies to organisations. When your organisation has a clear and compelling vision, you are much more likely to attract people who are passionate about your mission and willing to put in the extra effort to actually come up with innovations.

Without focus, you are likely to spread your resources too thin and to create too much overhead. This will lead you to be unable to execute on any of the ideas well enough to really be the best at it. If you have a clear vision and focus, you'll also be much better equipped for seeing those innovative ideas through to implementation and eventually to successful innovations.

Innovation and Risk

It is natural to fall into the trap of thinking that risks have negative effects. The concept of risk is too often seen as purely a negative issue that one should look to minimise. However, risk is defined as the potential of something either gaining or losing value, which means that it simply represents the uncertainty related to that something.

As working on innovation always involves a lot of uncertainty, you should look at risk as more than just something to minimise.

For example, early-stage startups in general have very little to lose, which is why they're willing to bet 100% of their resources on working on a single ambitious project with a very high likelihood of failure in the hopes of achieving a large potential upside.

On the other hand, there are tons of established companies that are highly risk-averse and even though they might have a lot of resources, they're only willing to invest them in initiatives that have a virtually guaranteed return.

The risk of not improving basically means that if you just keep on doing what you've always done, it's just a matter of time before you'll be out of business. In some industries, this might take decades, but in certain fast-moving ones, it might be mere months before you lose your competitive advantage.

So, not taking any risks at all can be considered to be the biggest negative risk factor of them all. It has no upside but has a guaranteed long-term negative risk of 100%.

Google: Eight Pillars

The greatest innovations are the ones we take for granted, like light bulbs, refrigeration, and penicillin. But in a world where the miraculous very quickly becomes common-place, how can a company, especially one as big as Google, maintain a spirit of innovation year after year?

Susan Wojcicki, VP of Advertising at Google, defines and explains Google's eight pillars of innovation. These pillars have allowed the company to grow exponentially and stay innovative.

1. Have a Mission that Matters

Work can be more than a job when it stands for something you care about. Google's mission is to 'organise the world's information and make it universally accessible and useful.' Gmail was created to address the need for more web email functionality and more storage.

2. Think Big but Start Small

No matter how ambitious the plan, you have to roll up your sleeves and start somewhere. It is necessary to look at all steps, even the minor ones. By taking the smallest initiatives, one can generate great, new ideas.

3. Strive for Continual Innovation, not Instant Perfection

Iterating allows companies to identify what works early and be able to respond properly. Some Google products are updated every day. It’s much better to learn these things early and be able to respond than to go too far down the wrong path.

4. Look for Ideas Everywhere

It is important to hear ideas from all sources; therefore great managers spark conversations with all employees with idea boards. Thus, problems are approached from different perspectives.

5. Share Everything

Google employees know pretty much everything that’s going on and why decisions are made. By sharing everything, you encourage the discussion, exchange, and re-interpretation of ideas, which can lead to unexpected and innovative outcomes.

6. Spark with Imagination, Fuel with Data

Google allows employees to dedicate 20% of their week to focus on whatever they want. Wojcicki says that “what begins with intuition is fuelled by insights.” and many Google products started life in employees’ 20 percent time.

7. Be a Platform

Open technologies allow anyone, anywhere, to apply their unique skills, perspectives and passions to the creation of new products and features. Thus, everyone is involved in the development.

8. Never Fail to Fail

Google AdSense and Google Answers were both uncharted territory for the company. While AdSense grew to be a multi-billion-dollar business, Google Answers (which let users post questions and pay an expert for the answer) was retired after four years. Even with failed expenditures, professionals learn from these experiences.

Although it is quite difficult to transfer all eight assumptions to other companies and industries, Google is a great case study of how we can formulate and implement innovation successfully.

Conclusion

Now that we’ve covered all the most important aspects of innovation management, you might be wondering “where to go from here”. Since innovation management is such a challenging and massive field, there obviously isn’t a specific answer to this question.

We usually recommend starting by assessing your current state first and then proceeding to identify the apparent bottlenecks in your organisation’s innovation work. Some parts, such as certain processes, might be easier to fix than other aspects like culture, which will without a doubt take more time.

Once you’ve fixed the bottlenecks, it’s then time to start focusing on building your capabilities in all four of the different key aspects we introduced at the beginning of this course.

If you want to move your business forward, you should focus on trying to get better every day and use all the possibilities to improve and learn to make sure you’re constantly moving to the right direction.

Your strategy and the level of maturity of your business set a direction to choosing your innovation KPIs, and if you keep a balance between input and output metrics, you’ll eventually see if you’re doing enough of the right things to be able to achieve your goals.

While it’s important to fix any obvious bottlenecks you might have, don’t use all of your time to simply work on weaknesses. Innovations are born from being exceptional and different at something, as opposed to being average at everything.

This obviously takes time, so you’ll need to take it step-by-step. And remember that just like successful strategies work, innovation is all about the execution.

DIGITAL TRANSFORMATION

Introduction

Welcome to Digital Transformation!
Digital transformation is everywhere at the moment. It can be found in companies, governments, and at countless conferences. As the hype around digital transformation continues to persist, the confusion also increases.
In this course, you will receive an introduction to digital transformation. We will explain the key terms, concepts, and technologies in simple and understandable terms. No previous knowledge of the topic is required. You will develop an understanding of what digital transformation is and how you and your company can benefit from it.
The concept behind digital transformation is how to use technology to remake a process so that it becomes more efficient or effective. It's not just about changing an existing service into a digital version but improving it. Digital Transformation refers to an *overall transformation* of organisational activities aimed at leveraging opportunities created by digital technologies and data. This requires companies to profoundly transform their business models. Some of the technologies used in digital transformation projects are IoT, blockchain, big data, cloud computing, AI, and machine learning. Digital transformation is more than just adding technology—part of the transformation includes changing how employees think. If the corporate culture doesn't support change, then it will be difficult for a company to instil new business processes and reach digital enlightenment. The shift to a digitally transformed business often means breaking down silos and relating differently to customers.
Digital transformation poses many challenges, but it also creates an abundance of new opportunities for your job and your company. Becoming a digital enterprise requires far more profound changes than merely investing in the latest technologies. It calls for change in:

- *Digital Business Models:* Companies need to fundamentally change the way they identify, develop, and launch a new business
- *Digital Operating Models:* Companies need to follow a lean approach to both core and support functions
- *Digital Talent and Skills:* Companies need to attract, retain, and develop the right talent
- *Digital Traction Metrics:* Companies need to adopt newer digital traction metrics as traditional KPIs are no longer effective in a digital business

Digital transformation calls for reexamining the entire way of doing business and exploring new frontiers of value. The transformation through the adoption of digital technology has changed the entire landscape of client engagement, commerce, marketing, and more across industries. The reasons for this change are:

- *Acceleration:* The pace of digital change is rising exponentially, making it very difficult to maintain a position of industry leadership and requiring an acceleration of new digital solutions brought to market.
- *Digital Competition:* The increasing pressure of digital competition has forced the long-established businesses to reexamine their models on the lines of new "born digital" start-ups.
- *Customer Expectations:* Customers expect a good experience across all touch-points. It is important to ensure that their interactions are seamless and exceptional.
- *Digital Adoption:* Digital adoption of Big data, automation, and IoT has made it necessary for companies to transform completely.

This course will explore the exciting world of digital transformation by presenting key technological changes and discussing how businesses need to adapt in order to succeed in today's competitive business world.

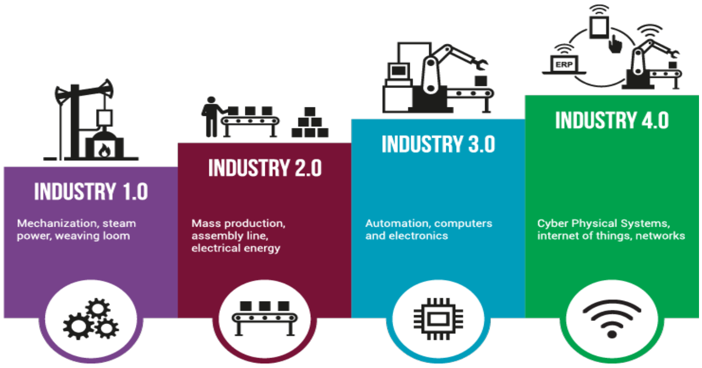
The Fourth Industrial Revolution

The Fourth Industrial Revolution is a way of describing the blurring of boundaries between the physical, digital, and biological worlds. It's a fusion of advances in artificial intelligence (AI), robotics, the Internet of Things (IoT), 3D printing, big data & cloud services, quantum computing, blockchain and other technologies.
It's the collective force behind many products and services that are fast becoming indispensable to modern life. Think GPS systems that suggest the fastest route to a destination, voice-activated virtual assistants such as Apple's Siri, personalised Netflix recommendations, and Facebook's ability to recognise your face and tag you in a friend's photo.
While the Fourth Industrial Revolution (sometimes called *Industry 4.0) is set to change society like never before, it builds on foundations laid by the first three industrial revolutions:*

- The advent of the steam engine in the 18th century led to the *first industrial revolution,* allowing production to be mechanised for the first time, and driving social change as people became increasingly urbanised.
- In the *second industrial revolution,* electricity and other scientific advancements led to mass production.

- A *third industrial revolution,* beginning in the 1950s, saw the emergence of computers and digital technology. This led to the increasing automation of manufacturing and the disruption of industries including banking, energy, and communications.

While previous revolutions were characterised by technological developments that enabled better production processes and information sharing, the Fourth Industrial Revolution is distinguishable by its development of "cyber–physical systems". In cyber–physical systems, technology interacts with both people and machines in new ways. This interaction changes the capabilities of people and machines, and augments technology into people's lives and bodies.
Nowhere is the upheaval of the Fourth Industrial Revolution more likely to be felt than the workplace. As with previous industrial revolutions, the Fourth Industrial Revolution will profoundly affect people's lives as AI and increased automation see many types of jobs disappear. At the same time, entirely new categories of jobs are emerging.



As the Fourth Industrial Revolution reshapes the future of work, businesses must prepare their people for the new world that lies ahead. This often means an increased focus on continual learning, building more on-ramps to new types of jobs, and a commitment to diversity.
All previous industrial revolutions have had both positive and negative impacts on different stakeholders. Nations have become wealthier, and technologies have helped pull entire societies out of poverty, but the inability to fairly distribute the resulting benefits or anticipate externalities has resulted in global challenges. By recognising the risks, whether cybersecurity threats, misinformation on a massive scale through digital media, potential unemployment, or increasing social and income inequality, we can take the steps to align common human values with our technological progress and ensure that the Fourth Industrial Revolution benefits human beings first and foremost.

Innovative Technologies

From Big Data to Blockchain – the last two decades have been major years in tech. As cutting-edge technologies reach the market and are integrated, business strategies may evolve as well. In this chapter we want to highlight the most innovative technological developments of the last years:

Big Data & Cloud Services

Today, two mainstream technologies are the center of concern in IT – Big Data and Cloud Computing. Fundamentally different, big data is about dealing with the massive scale of data whereas cloud computing is about infrastructure. However, many businesses are targeting to combine the two techniques.

What is Big Data?

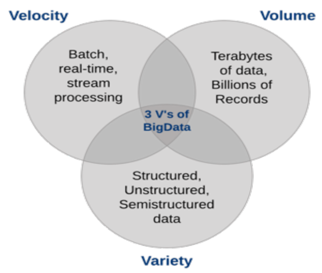
Big Data is a term that describes the large volume of data – both structured and unstructured – that inundates a business on a day-to-day basis. Big data can be analysed for insights that lead to better decisions and strategic business moves.
The concept gained momentum in the early 2000s when industry analyst Doug Laney articulated the now-mainstream definition of big data as the three Vs:

- *Volume:* The amount of data matters. With big data, you'll have to process high volumes of low-density, unstructured data. This can be data of unknown value, such as clickstreams on a webpage or a mobile app, or sensor-enabled equipment.

- *Velocity*: Velocity is the fast rate at which data is received and (perhaps) acted on. Normally, the highest velocity of data streams directly into memory versus being written to disk. Some internet-enabled smart products operate in real-time and will require real-time evaluation.
- *Variety*: Variety refers to the many types of data that are available. Traditional data types were structured and fit neatly in a relational database. With the rise of big data, data comes in new unstructured or semistructured data types, such as text, audio, and video.

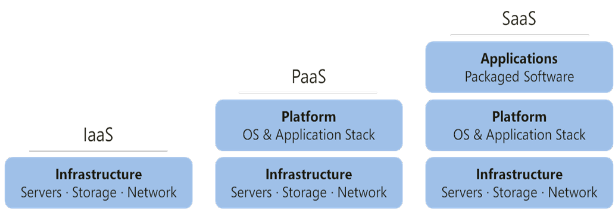
The importance of big data doesn't revolve around how much data you have, but what you do with it.

You can take data from any source and analyse it to find answers that enable cost reductions, time reductions, new product development and optimised offerings, and smart decision making.



What is Cloud Computing?
Cloud Computing is an on-demand delivery of database, compute power, storage, applications, and other IT resources through cloud services platform over the internet on a pay-as-you-go basis. It is called cloud computing because the information that is to be accessed is found in "the cloud" and it does not require a user to be in a particular region to get access to it.
Cloud computing services cover a vast range of options now: Pretty much any service that doesn't require you to be physically close to the computer hardware that you are using can now be delivered via the cloud. Cloud computing has three main types that are commonly referred to:

- *Infrastructure as a Service (IaaS)* provides virtualised resources over the network. IaaS provides underlying operating systems, networking, security and servers for developing applications, services for deploying databases, development tools, etc.
- *Platform as a Service (PaaS)* provides an on-demand environment for testing, developing, managing, and delivering software applications. PaaS supports the whole web application lifecycle: building, testing, deploying, managing, and updating.
- *Software as a Service (SaaS)* is a method of delivering software applications. With SaaS, Cloud Service providers host and manage the software applications and underlying infrastructure with a service agreement.



The exact benefits will vary according to the type of cloud service being used but, fundamentally, using cloud services means companies not having to buy or maintain their own computing infrastructure. No more buying servers, updating applications or operating systems, or decommissioning and disposing of hardware or software when it is out of date, as it is all taken care of by the supplier.

Using cloud services means companies can move faster on projects and test out concepts without lengthy procurement and big upfront costs because firms only pay for the resources they consume. This concept of business agility is often mentioned by cloud advocates as a key benefit. The ability to spin up new services without the time and effort associated with traditional IT procurement should mean that is easier to get going with new applications faster.

Internet of Things

One of the biggest tech trends to emerge in recent years is the *Internet of Things (IoT).* Simply put, the Internet of Things is the idea that all technological devices can be connected to the internet and to each other in an attempt to create the perfect marriage between the physical and digital worlds.

How will this impact you?

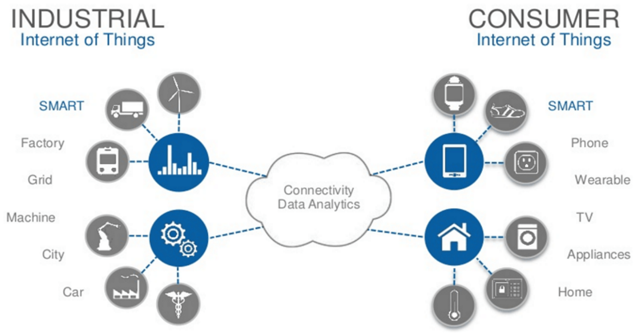
It depends on your industry. For example, for those who work in marketing, advertising, media or business management, IOT could provide a wealth of information on how consumers engage with products by tracking their interactions with digital devices. In turn, this data could be used to optimise marketing campaigns and user experiences.

Many technological devices are now being built with WiFi connectivity, meaning they can be connected to the Internet—and to each other. IoT enables devices, home appliances, cars and much more to be connected to and exchange data over the Internet.

What are the benefits?

As consumers, we're already using and benefiting from IoT: We can lock our doors remotely if we forget to when we leave for work and preheat our ovens on our way home from work, all while tracking our fitness.

But businesses also have much to gain now and in the near future. The IoT can enable better safety, efficiency, and decision making for businesses as data is collected and analysed. It can enable predictive maintenance, speed up medical care, improve customer service, and offer benefits we haven't even imagined yet.

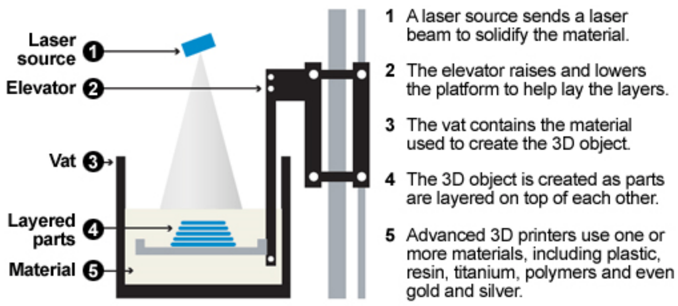


For someone interested in a career in IoT, that means easy entry into the field if you're motivated, with a range of options for getting started. Skills needed include IoT security, cloud computing knowledge, data analytics, automation, understanding of embedded systems, device knowledge, to name only a few. After all, it's the Internet of Things, and those things are many and varied, meaning the skills needed are as well.

Additive Manufacturing

Additive manufacturing (AM), also known as 3D printing, is a transformative approach to industrial production that enables the creation of lighter, stronger parts and systems. It is yet another technological advancement made possible by the transition from analog to digital processes.

3D printers work similar to regular ink printers. But instead of ink, 3D printers deposit the desired material in successive layers to create a physical object from a digital file.



In recent decades, communications, imaging, architecture, and engineering have all undergone their own digital revolutions. Now, AM can bring digital flexibility and efficiency to manufacturing operations.

Conventional manufacturing techniques are capable of producing a great range of shapes and designs but additive manufacturing takes production to the next level.

One of the greatest benefits of this more modern technology is the *greater range of shapes* which can be produced. Designs that can't be manufactured in one entire piece with traditional means can easily be achieved. For example, shapes with a scooped out or hollow center can be produced as a single piece, without the need to weld or attach individual components together. This has the advantage of being *stronger*; no weak spots which can be compromised or stressed.

The additive manufacturing process is *very quick* too, rather than needing an endless round of meetings from engineers in order to be able to tweak designs. With the assistance of the CAD software, making any changes takes simply the click of the mouse. Rapid prototyping, in particular, is very quick, with full models produced quite literally overnight in some cases. This provides companies with far more flexibility and also has the result of slashing costs too.

In the past, the limitations of production have all too often influenced design, ruling out ideas because they weren't practically achievable. The introduction of this technology and its development means the process has been spun on its head, with *the design now driving the production.*

Cyber Security

Cyber Security consists of technologies, processes, and controls designed to protect systems, networks, programs, devices and data from cyber-attacks. Effective cybersecurity reduces the risk of cyber-attacks and protects against the unauthorised exploitation of systems, networks, and technologies.

Cyber attacks can cause significant disruption and damage to even the most resilient organisation. Impacted organisations stand to lose assets, reputation and business, and face fines and remediation costs.

Most people link cybersecurity only to technological threads and solutions. But robust cybersecurity involves implementing controls based on three pillars: people, processes, and technology. These *Three Pillars of Cyber Security* help organisations protect themselves from both organised and opportunistic attacks, as well as common internal threats, such as a user falling for a phishing scam or mistakenly sending an email to an unintended recipient.

- *People*: Every employee needs to be aware of their role in preventing cyber threats.
- *Processes*: Documented processes should clearly define roles and responsibilities.
- *Technology*: Technical controls are just as essential to mitigate cyber risks.

Fields of Cyber Security

The term Cyber Security applies in a variety of contexts, from business to mobile computing, and can be divided into a few common categories:

- Application security focuses on keeping software and devices free of threats. A compromised application could provide access to the data it is designed to protect.
- Information security protects the integrity and privacy of data, both in storage and in transit.
- Network security is the practice of securing a computer network from intruders, whether targeted attackers or opportunistic malware.
- Operational security includes the processes and decisions for handling and protecting data.
- End-user education addresses people: Human error remains the leading cause of data breaches and organisations need to educate employees on security topics.

Cyber Attacks and Cyber Security Threats

Common methods attackers use to control computers or networks include viruses, worms, spyware, Trojans, and ransomware. Viruses and worms can self-replicate and damage files or systems without the user's knowledge, while spyware and Trojans are often used for surreptitious data collection. Ransomware waits for an opportunity to encrypt all the user's information and demands payment to return access to the user. Malicious code often spreads via an unsolicited email attachment or a legitimate-looking download that actually carries a malware payload.

Social engineering is the process of psychologically manipulating people into performing actions or giving away information. Phishing attacks are the most common form of social engineering. Phishing attacks usually come in the form of a deceptive email that tricks the user into giving away personal information. Not always easy to distinguish from genuine messages, these scams can inflict enormous damage on organizations.

Two more advanced threads are DDoS and MITM:

- A Distributed Denial-of-Service (DDoS) attack attempts to disrupt normal web traffic and take a site offline by flooding a system or server with more requests than it can handle.
- A Man-In-The-Middle (MITM) attack occurs when a hacker inserts themselves between a visitor's device and a server. MITM attacks often happen when a user logs on to an insecure Wi-Fi network. The user will then unknowingly pass information through the attacker.

Finally, using outdated (unpatched) software opens up opportunities for criminal hackers to take advantage of vulnerabilities to bring entire systems down. A zero-day attack can occur when a vulnerability is made public before a patch or solution has been rolled out by the developer.

Follow these four steps for cyber safety:

- *Only trust https-URLs***!** Only use trusted sites when providing your personal information. A good rule of thumb is to check the URL. If the site includes "https://," then it's a secure site. If the URL includes "http://," — note the missing "s" — avoid entering sensitive information like your credit card data.
- *Don't open unknown attachments/links!* Don't open email attachments or click links in emails from unknown sources. One of the most common ways people are attacked is through emails disguised as being sent by someone you trust.
- *Keep your devices updated!* Always keep your devices updated. Software updates contain important patches to fix security issues. Cyberattacker's thrive on outdated devices because they don't have the most current security software.
- *Regularly back up your files!* Back up your files regularly to prevent cybersecurity attacks. If you need to wipe your device clean due to a cyberattack, it will help to have your files stored in a safe, separate place.

The most effective strategy to mitigating and minimising the effects of a cyber attack is to build a solid foundation upon which to grow your cybersecurity technology stack. A solid cybersecurity foundation will identify these gaps and propose the appropriate action to take to mitigate the risk of an attack, enabling you to build a robust cybersecurity strategy.

Artificial Intelligence

Artificial Intelligence (AI) has already received a lot of buzz in recent years, but it continues to be a trend to watch because its effects on how we live, work and play are only in the early stages. In addition, other branches of AI have developed, including Machine Learning.

AI refers to computers systems built to mimic human intelligence and perform tasks such as recognition of images, speech or patterns, and decision making. AI can do these tasks faster and more accurately than humans.

AI has been around since 1956 and is already widely used. In fact, many people use AI services in one form or another every day, including navigation apps, streaming services, smartphone personal assistants, ride-sharing apps, home personal assistants, and smart home devices. In addition to consumer use, AI is used to schedule trains, assess business risk, predict maintenance, and improve energy efficiency, among many other money-saving tasks.

As we move forward and technology progresses and evolves, our definition of AI changes. But regardless of the mechanisms, the level of AI can be broken down into three main categories:

- *Weak AI* – also called Narrow AI – is able to handle just one particular task. Examples include an email spam filtering tool or a recommended playlist from Spotify. Weak AI is the only form of Artificial Intelligence that humanity has achieved so far.
- *Strong AI* – also called General AI – could handle various tasks. It is comparatively as intelligent as the human brain. Unlike weak AI, it can learn and improve itself.
- *Super AI* is a term referring to the time when the capability of computers will surpass humans. Super AI can think about abstractions which are impossible for humans to understand.

AI is one part of what we refer to broadly as *automation* – the technology by which a process or procedure is performed with minimal human assistance. Automation is a hot topic because of potential job loss. It will eliminate millions of jobs, but it is creating jobs as well, especially in the field of AI. Jobs will be created in development, programming and testing, to name a few.

What is Machine Learning?

Machine Learning is a subset of AI. With Machine Learning, computers are programmed to learn to do something they are not programmed to do: They literally learn by discovering patterns and insights from data. For example, social media platforms use machine learning to get a better understanding of how you're connected with those in your social network. They do this by analysing your likes, shares, and comments and then prioritising content from your closest connections, serving you that content first.

What is Deep Learning?

Deep Learning is a specialised form of machine learning that teaches computers to do what comes naturally to humans: learn by example. Deep learning is a key technology behind driverless cars, enabling them to recognise a stop sign or to distinguish a pedestrian from a lamppost. In deep learning, a computer model learns to perform classification tasks directly from images, text, or sound. Deep learning models can achieve state-of-the-art accuracy, sometimes exceeding human-level performance. Models are trained by using a large set of labeled data and neural network architectures that contain many layers.

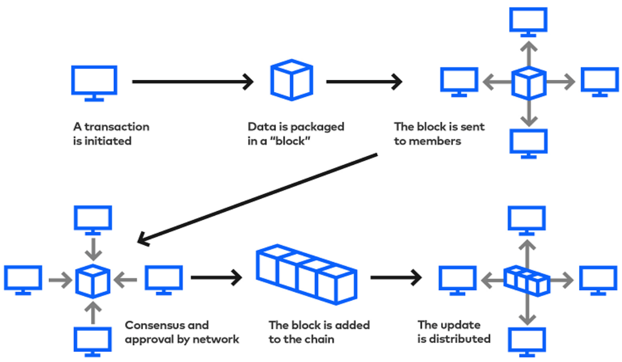
Artificial Intelligence – including Machine Learning and Deep Learning – is rapidly being deployed in all industries, creating a huge demand for skilled professionals.

Blockchain

Many people know it as the technology behind Bitcoin, but blockchain's potential uses extend far beyond digital currencies. Banks and firms are falling over one another to be the first to work out how to use it. So what exactly is blockchain, and why are Wall Street and Silicon Valley so excited about it?

What is blockchain?

Currently, most people use a trusted middleman – such as a bank – to make a transaction. But blockchain allows consumers and suppliers to connect directly, removing the need for a third party. Using cryptography to keep exchanges secure, blockchain provides a decentralised database, or "digital ledger", of transactions that everyone on the network can see. This network is essentially a chain of computers that must all approve an exchange before it can be verified and recorded. To sum it up, a blockchain is a growing list of records, called blocks, which are linked using cryptography.



How does it work in practice?

Information held on a blockchain exists as a shared — and continually reconciled — database. This is a way of using the network that has obvious benefits. The blockchain database isn't stored in any single location, meaning the records it keeps are truly public and easily verifiable. No centralised version of this information exists for a hacker to corrupt. Hosted by millions of computers simultaneously, its data is accessible to anyone on the internet.

"Picture a spreadsheet that is duplicated thousands of times across a network of computers. Then imagine that this network is designed to regularly update this spreadsheet and you have a basic understanding of the blockchain."
– Ian Khan (Blockchain Author)

Why is it so revolutionary?

The technology can work for almost every type of transaction involving value, including money, goods, and property. Its potential uses are almost limitless: from collecting taxes to enabling migrants to send money back to family in countries where banking is difficult. Blockchain could also help to reduce fraud because every transaction would be recorded and distributed on a public ledger for anyone to see.

What are the key attributes?

1. Decentralisation	Before Bitcoin came along, we were more used to centralised services: You have a centralised entity which stored all the data and you'd have to interact solely with this entity. In a decentralised system, the information is not stored by one single entity. In fact, everyone in the network owns the information.
2. Transparency	Every person's identity is hidden via complex cryptography and represented only by their public address. While the person's real identity is secure, you will still see all the transactions that were done by their public address. This level of transparency has never existed before within a financial system.

3. Immutability	Immutability, in the context of the blockchain, means that once something has been entered into the blockchain, it cannot be tampered with. This makes blockchains so highly reliable and trailblazing.

The three main properties of Blockchain technology which has helped it gain widespread acclaim are;
1. Decentralisation, 2. Transparency, and 3. Immutability.

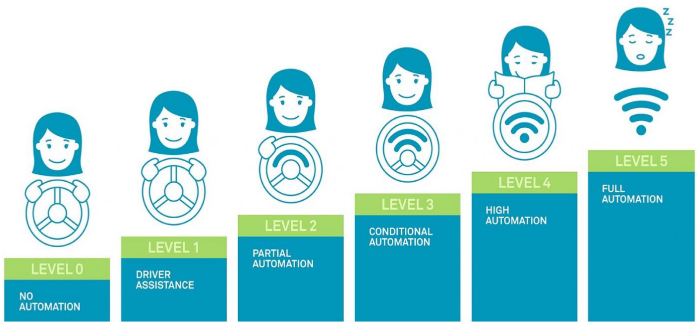
Who is using blockchain?
In theory, if blockchain goes mainstream, anyone with access to the internet would be able to use it to make transactions. Currently only a very small proportion of global GDP is held in the blockchain. But research suggests this will increase significantly in the next decade, as banks, insurers and tech firms see the technology as a way to speed up settlements and cut costs.

Case Studies

While we have been discussing technological trends individually in the previous chapter, we now want to take a broader view at how they combine and supplement each other. To do so, we will now focus on automated driving, digital twins, Industry 4.0, and smart cities as case studies.

Automated Driving

Self-driving vehicles are cars or trucks in which human drivers are never required to take control to safely operate the vehicle. Also known as autonomous or "driverless" cars, they combine sensors and software to control, navigate, and drive the vehicle.
Currently, there are no legally operating, fully-autonomous vehicles available for the mass market. There are, however, partially-autonomous vehicles – cars and trucks with varying amounts of self-automation, from conventional cars with brake and lane assistance to highly-independent, self-driving prototypes.
Different cars are capable of different levels of self-driving, and are often described by researchers on a scale from level 0 to level 5:



Level 0	All major systems are controlled by humans.
Level 1	Certain systems, such as automatic braking, may be controlled by the car, one at a time.
Level 2	The car offers at least two simultaneous automated functions, like acceleration and steering.
Level 3	The car can manage all safety-critical functions under certain conditions.
Level 4	The car is fully-autonomous in some driving scenarios, though not all.
Level 5	The car is completely capable of self-driving in every situation.

Though still in its infancy, self-driving technology is becoming increasingly common and could radically transform our transportation system (and by extension, our economy, and society). Based on automaker and technology company estimates, level 4 self-driving cars could be for sale in the next several years.

Functionality
The self-driving car is a great example of a combination of multiple technologies introduced in the last lesson. While the design details of the cars developed by Google, Tesla and other major automakers vary, most self-driving systems use the *Internet of Things:* The cars create and maintain an internal map of their surroundings, based on a wide array of sensors, like radar, lasers, high-powered cameras, and sonar. A software then processes those inputs and sends instructions to the vehicle's "actuators," which control acceleration, braking, and steering. *Cloud services* often enable communication between the car and other cars on next-generation traffic lights. Those traffic rules are mostly hardcoded, but narrow *Artificial Intelligence* is what allows predictive modelling and smart

object discrimination. That means, knowing the difference between a bicycle and a motorcycle. While most human only needs a few driving lessons until they can drive well enough, an autonomous car needs thousands of hours and millions of data points to learn it, which is enabled by *Big Data*.

Impacts

The costs and benefits of self-driving cars are still largely hypothetical. More information is needed to fully assess how they'll impact drivers, the economy, and the environment.

- *Safety* is an overarching concern. Self-driving vehicles could, hypothetically, reduce the number of car crashes and traffic deaths since software could prove to be less error-prone than humans. However, cybersecurity is still a chief concern.
- *Equity* is another major consideration. Self-driving technology could help mobilise individuals who are unable to drive themselves, such as the elderly or disabled. But the widespread adoption of autonomous vehicles could also displace millions of professional drivers.
- *Environmental* impacts are a serious concern and major uncertainty. Accessible, affordable, and convenient self-driving cars could increase the total number of miles driven each year. If those vehicles are powered by gasoline, then transportation-related climate emissions could skyrocket. If, however, the vehicles are electrified – and paired with a clean electricity grid – then transportation emissions could drop significantly.

You can see autonomous driving is a combination of multiple digital trends and with this, it will most likely transform not only the way we use cars but also the way we think about transportation and logistics more broadly.

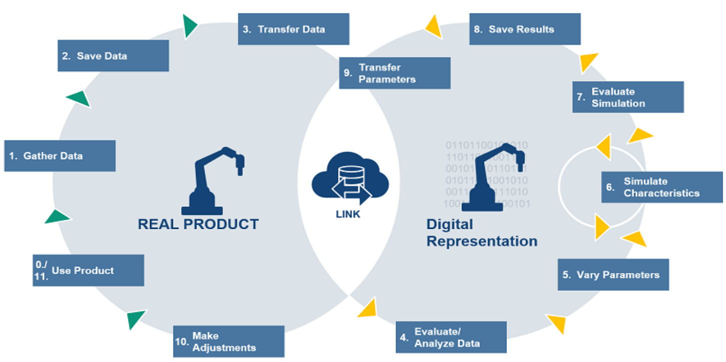
Digital Twins

A *Digital Twin* is a digital replica of a physical entity. By bridging the physical and the virtual world, data is transmitted seamlessly allowing the virtual entity to exist simultaneously with the physical entity. The digital twin provides both the elements and the dynamics of how the physical twin operates.
The technology behind digital twins has expanded to include large items such as vehicles, buildings, factories, and even cities, and some have said people and processes can have digital twins, expanding the concept even further. The idea first arose at NASA: full-scale mockups of early space capsules, used on the ground to mirror and diagnose problems in orbit, eventually gave way to fully digital simulations.

How does a digital twin work?

A digital twin begins its life being built by specialists, often experts in data science or applied mathematics. These developers research the physics that underlie the physical object or system being mimicked and use that data to develop a mathematical model that simulates the real-world original in digital space.

The twin is constructed so that it can receive input from sensors gathering data from a real-world counterpart. This allows the twin to simulate the physical object in real-time, in the process offering insights into performance and potential problems. The twin could also be designed based on a prototype of its physical counterpart, in which case the twin can provide feedback as the product is refined; a twin could even serve as a prototype itself before any physical version is built.



Digital-twin use cases

Objects such as aircraft engines, trains, offshore platforms, and turbines can be designed and tested digitally before being physically produced. These digital twins could also be used to help with maintenance operations. For example, technicians could use a digital twin to test that a proposed fix for a piece of equipment works before applying the fix the physical twin.

Digital-twin business applications are found in a number of sectors:

- *Manufacturing* is the area where rollouts of digital twins are probably the furthest along, with factories already using digital twins to simulate their processes.
- *Automotive* digital twins are made possible because cars are already fitted with telemetry sensors, but refining the technology will become more important as more autonomous vehicles hit the road.
- *Healthcare* is the sector that produces the digital twins of people we mentioned above. Band-aid sized sensors send health information back to a digital twin used to monitor and predict a patient's well-being.

Benefits of digital twins

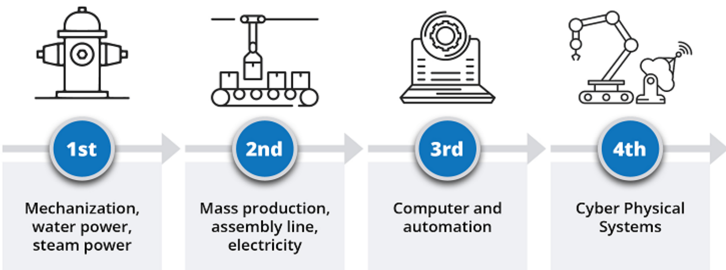
Digital twins offer a real-time look at what's happening with physical assets, which can radically alleviate maintenance burdens. Chevron is rolling out digital twin tech for its oil fields and refineries and expects to save millions of dollars in maintenance costs. And Siemens says that using digital twins to model and prototype objects that have not been manufactured yet can reduce product defects and shorten time to market. But keep in mind that digital twins aren't always called for, and can unnecessarily increase complexity.

Industry 4.0

Industry 4.0 is a name given to the current trend of automation and data exchange in manufacturing technologies. It includes cyber-physical systems, the Internet of things, cloud computing and cognitive computing. Industry 4.0 is commonly referred to as the fourth industrial revolution.

The term "Industry 4.0" originates from a project in the high-tech strategy of the German government, which promotes the computerisation of manufacturing and is linked to the fourth industrial revolution (see: Chapter 2).

When you bring the modern technologies we have discussed all together, it gives you a picture of what the state of the art production factory should look like: a fully integrated, automated and optimised system.



Industry 4.0 fosters what has been called a *smart factory*. The smart factory represents a leap forward from more traditional automation (third industrial revolution) to a fully connected and flexible system. It is a system that can *self optimise* performance and learn from new conditions in real-time, and autonomously run entire production processes.

The ability to adjust to and learn from data in real-time can make the smart factory more responsive, proactive, and predictive, and enables the organisation to avoid operational downtime and other productivity challenges.

Key Benefits

What are the benefits of building a smart factory? The reasons that companies embark or expand on the smart factory journey are often varied and cannot be easily generalised. However, undertaking a smart factory journey generally addresses five broad categories:

- *Asset efficiency*: Every aspect of the smart factory generates reams data that, through continuous analysis, reveal asset performance issues that can require some kind of corrective optimisation. Such self-correction can yield greater overall asset efficiency.
- *Quality*: The self-optimisation can predict and detect quality defect trends sooner and can help to identify discrete human or machine causes of poor quality. A more optimised quality process could lead to a better-quality product with fewer defects and recalls.
- *Lower cost:* Optimised processes traditionally lead to more cost-efficient processes – those with more predictable inventory requirements, more effective hiring and staffing decisions, as well as reduced process and operations variability.
- *Sustainability*: The types of operational efficiencies that a smart factory can provide may result in a smaller environmental footprint than a conventional manufacturing process, with greater environmental sustainability overall.
- *Safety*: Greater process autonomy may provide for less potential for human error, including industrial accidents that cause injuries.

Smart City

A *Smart City* is an urban area that uses different types of electronic Internet of Things (IoT) sensors to collect data and then use these data to manage assets and resources efficiently. Smart cities use data and technology to create efficiencies, improve sustainability, and create economic development.

This includes data collected from citizens, devices, and assets that is processed and analysed to monitor and manage traffic and transportation systems, power plants, water supply networks, waste management, crime detection, information systems, schools, libraries, hospitals, and other community services. Let's now focus on five basic smarty city components and their impact:

1. Smart Mobility

Smart Streets are capable of acquiring data and delivering information and services to and from millions of devices, which includes information about traffic, road blockages, roadworks, etc. Smart Parking Management systems with wireless sensors can be used to find the vacant location for a vehicle at different public places. Smart Mobility also includes Connected Charging Stations in parking systems, shopping malls, airports, and bus stations across the city.

2. Smart Energy

The Smart Grid is an electricity supply network that uses digital communications technology to detect and react to local changes in usage. Smart grids are digitally monitored, self-healing energy systems that deliver electricity or gas from generation sources. Gateways can provide a broader view of energy distribution patterns to utility companies with high connectivity and real-time analytics. Consumers and utilities with smart meters can monitor their energy consumption.

3. Smart Water & Waste Management

Smart water management enables the city to monitor the quality of tap water as well as the condition of lakes and rivers. Smart solutions for tracking wastes help municipalities and waste service managers the ability to optimize wastes, reduce operational costs, and better address the environmental issues associated with an inefficient waste collection.

4. Smart Buildings

Smart heating and ventilation systems monitor various parameters such as temperature, pressure, vibration or humidity of buildings and properties. Wireless sensor network deployment is the key to ensuring appropriate heating and ventilation. These sensors also collect data to optimise the HVAC systems, improving their efficiency and performance in the buildings.

5. Smart City Services

Smart kiosks can play an important role in providing different city services to the public such as Wi-Fi services or free mobile charging stations. Sensors (cameras, street lights) for real-time monitoring can be implemented in risky areas or areas prone to accidents. Upon detecting any crime, or mishap, these sensors can alert the citizens to avoid such areas temporarily.

Smart sensor networks, Internet of Things (IoT) and connected technologies are the key solutions for smart city implementation. In the end, the real conditions for success reside in data interoperability and in knowing how to access and share data in standard formats (such as with APIs). The challenge is to make these data available in a readable format that can be reused by all.

Managing Digital Transformation

Digital transformation is reaching businesses across every industry. Businesses must go digital, but many do not know how to approach this transformation. In this chapter, we will look at a simple 4-step model on how to start based on expert opinions.

Leading Digital Transformation

For digital transformation to succeed, it is vital to understand what can go wrong and to have a solid process in place. Scientists have worked with hundreds of companies undergoing digital transformation and identified four crucial points:

1. Have a digital mindset: By having an open-minded attitude about the benefits that digital technologies can bring to people, processes, and businesses, we open a new world of opportunities. Eliminating the idea of technology boundaries enables us to re-imagine each aspect of the business' entire purpose and value-generation chain. Being open to a digital mindset will unlock previously unseen business model possibilities.

2. Explain why transformation is necessary: Everyone involved needs to understand the reasons behind digital transformation. You're asking people to change, if they haven't bought into the why, it's not going to happen. Those at the top have to take the time to make sure the company is bought in – from board members to interns – or risk jeopardising company culture, and the long-term success of the project.

3. Set the right goals: Before beginning digital transformation, organisations must identify their end goal. Beyond the clear need to remain competitive and improve market share, some companies may choose to digitally transform so they can serve their customers better, by introducing new products or services. Others may digitise to streamline internal processes or free up their employees' time to do less mundane tasks. Take the time to outline these desired outcomes, as this will define the sort of digital strategy you should be creating.
4. Focus on the user: Technology sits at the heart of any digital transformation initiative, be it new project management software to use internally or specific digital products created to appeal to new customers. Either way, the reality is clear: if it is difficult to use, people will not use it. This is particularly important from a talent management standpoint. When an increasingly large percentage of the workforce are digital natives, in-house technology must be intuitive, or this talent will simply go elsewhere.

Traps of Digital Transformation

Business leaders are in a high-stakes game. Many have embarked on programs to reinvent their businesses. The rewards for success are enormous, while the consequences of failure are drastic. Transforming your business has risks. Successful leaders know how to spot them and avoid them.
A clear understanding of what really matters to the success of digital transformation and what doesn't, however, can make all the difference. For this reason, we analysed dozens of both successful and less successful digital transformations to get at the six root causes of where they go wrong:

1. Excessive caution: Paradoxical though it may sound, we believe companies need to take more risk, not less. Recent McKinsey research reveals that companies that do best follow bold and disruptive strategies. They make big bets on new technologies and business models, champion a test-and-learn culture where every failure is an opportunity to improve, and launch change programs that transform their whole business.
2. Lack of focus: Many companies have adopted a "let a hundred flowers bloom" philosophy that encourages broad experimentation. Such an approach generates excitement and learning, but it can also be self-defeating if not carefully managed. Running too many competing initiatives dissipates management focus and starves promising ideas of the resources they need for a successful scale-up.
3. Running out of money: Some digital transformations run into difficulties because costs rocket while savings or revenue growth take longer than expected. Leading companies start by targeting quick wins to unlock value so that the effort funds itself, often within the first three months. In fact, this approach can be so effective that the most successful companies generate more savings or revenues than are needed to fund a transformation.
4. Lack of discipline: Agility and speed are second nature to a digital organisation, but energy can turn to chaos if it isn't channeled purposefully. Leaders need to be systematic about identifying and capturing business value, which begins with creating transparency into, and useful metrics to track, the progress of digital initiatives.
Many companies focus on output-based KPIs such as profit growth, digital revenues as a percentage of total revenues, or reduction in capex. But such broad metrics don't isolate the factors that contribute to a given result. It's more productive to develop a set of simple input metrics tracking elements such as SEO conversion and app traffic while making it clear who owns each item and is accountable for the result.
5. Failure to learn: A surefire way to sink a transformation is to stop learning. Successful companies reward experimentation because learning from mistakes helps a company get it right the next time, which in turn fosters more creativity. A review of teams at Google found that when employees felt they could take risks without being shamed or criticised for failure, they did better work.
6. Going too slowly: However quickly you think you are going, chances are it isn't fast enough. Speed is of the essence when it comes to reacting to market changes and capturing revenue opportunities before competitors do.

Organising Digital Transformation

"It would be trite to say 'such and such is the best organisational structure for digital transformation'", says Clare Barclay, chief operating officer of Microsoft UK, "you have to look at what the scenario is for the organisation in question."
Once you have established your goals and laid the foundations of your digital strategy, you must assess your organisation's capabilities to select the best possible organisational structure for your digital transformation project. Here are four possible ways to do so:

1. Top-Down Management:
Many organisations may embark on a digital transformation project at the behest of the board or senior management. In some situations, this makes the CEO the driving force behind the digital transformation project. Such was the case with Louise O'Shea, chief executive officer of price comparison website confused.com. With Ms. O'Shea at the helm, the company decided to break their business model and start again, using artificial intelligence and automation. Most importantly, Ms. O'Shea initiated the creation of an internal school for

technology, to teach employees about the new technology coming in and re-skilling them for the new roles they were to occupy.

2. Strategic Partnerships:

"Beginning the initiative, we really understood our limitations – this was crucial" explains Alan Talbot, chief information officer of Air Malta. Having identified the technical areas where they were not equipped, the airline chose to bring on board two-hybrid integration and connectivity partners, MuleSoft and Ricston. Locally-based Ricston actually came and worked at the Air Malta headquarters throughout the process, so they could fully understand the organisation's needs. "The fact that we could augment our team with these experts, and have their presence here on our premises, relating with the rest of our team, that was significant, because they could savour and understand what working for an airline is really like."

*3. Innovation Labs***:**

One possible way to explore new technologies is to trial your digital strategy in a digital garage or innovation lab. This allows companies to innovate and test theories without disrupting the day-to-day running of the organisation. Car manufacturer Porsche has created the Porsche Digital Lab to test artificial intelligence, blockchain and the internet of things, with a view to improving both the driving experience in their vehicles and working conditions for their employees. Likewise, IT provider Fujitsu has established a number of Digital Transformation Centres across the globe to act as innovation hubs where their customers can come to ask questions about new digital tech.

4. Dedicated Change Teams:

A fourth possible method for enacting your digital transformation is to establish a dedicated change team – or a number of change agents – within the organisation. Organisations can choose to hire outside consultants or identify natural innovators from within the ranks. These change agents work together to drive the digital strategy and are responsible for going into each team or department to lead specific change projects. "One thing I would advocate," says Ms. Barclay, "is that these change agents are people who consider this their full-time day job, rather than trying to carve the role out of someone else's already very busy day."

Conclusion

Digital transformation is the integration of digital technology into all areas of a business, fundamentally changing how you operate and deliver value to customers. It's also a cultural change that requires organisations to continually challenge the status quo, experiment, and get comfortable with failure.

Because digital transformation will look different for every company, it can be hard to pinpoint a definition that applies to all. However, in general terms, we define digital transformation as the *integration of digital technology into all areas* of a business resulting in fundamental changes to how businesses operate and how they deliver value to customers.

Beyond that, it's a *cultural change* that requires organisations to continually challenge the status quo, experiment often, and get comfortable with failure. This sometimes means walking away from long-standing business processes that companies were built upon in favour of relatively new practices that are still being defined.

Outstanding and groundbreaking technological developments within the last years include Big Data, Cloud Services, Internet of Things (IoT), Additive Manufacturing, Cyber Security, Artificial Intelligence (AI), as well as Blockchain. Combining these technologies enables automated driving, digital twins, Industry 4.0 and Smart Cities, to name a few.

A *digital transformation strategy* aims to create the capabilities of fully leveraging the possibilities and opportunities of new technologies and their impact faster, better and in a more innovative way in the future. A digital transformation journey needs a staged approach with a clear roadmap, involving a variety of stakeholders, beyond silos and internal/external limitations. This roadmap takes into account that end goals will continue to move as digital transformation de facto is an ongoing journey, as is change and digital innovation.

Although disruption has long been a threat for some industries, the rise of digital technologies has accelerated the pace of disruption in virtually every industry, creating immense ambiguity and unease. Meanwhile, *uncertainty continues to accelerate* in the broader business environment as the rate at which new technologies emerge increases exponentially – all while competition becomes increasingly fierce. The dominance of established leaders has never been more under threat. However, these changes are also creating *immense opportunities,* and the tools to prosper during the age of digital disruption are accessible and available.

DESIGN THINKING

Introduction

Welcome to Design Thinking

Thinking like a designer can transform the way organisations develop products, services, processes, and strategy. Design Thinking allows managers to use creative tools to address a vast range of challenges.

Design Thinking brings together what is desirable from a human point of view with what is technologically feasible and economically viable. It is a systematic, human centre approach to solving complex problems within all aspects of life. The approach goes far beyond traditional concerns such as shape and layout. And unlike traditional scientific and engineering approaches, which address a task from the view of technical solvability, user needs and requirements, as well as user-oriented invention, are central to the process.

Design Thinkers step into the end-users' shoes – not only interviewing them, but also carefully observing their behaviours. Solutions and ideas are concretised and communicated in the form of *prototypes* as early as possible so that potential users can test them and provide feedback – long before the completion or launch. In this way, Design Thinking generates *practical results.*

Three important factors make Design Thinking successful:

- the collaborative interaction of multi-disciplinary and decision-capable *teams*,
- flexible *workspace* for collaborative work
- and a workflow that follows the Design Thinking *process.*

In this course, we provide an overview of design thinking and work with a five-step model and several tools to help you understand design thinking as a problem-solving approach. We also look at a detailed case study of an organisation that used design thinking to uncover compelling solutions.

What is Design Thinking?

Design thinking in its most arbitrary form is the act of "thinking like a designer". However, despite extensive literature on the topic, there is no singular agreed-upon definition. In this chapter, we will discuss four of the most popular definitions of design thinking.

Problem Solving

Every design starts with a problem at the very beginning: People needed to shelter from the rain and sleep in the cave but it's too humid, so here came with the house. They needed to cover their bodies, so the clothes were designed. People needed to hunt and the stones were too sharp, so they had tools. People need to drink water and it's too far to the river, so cups were made.

Any design is a purposeful demand solution starting from the problem. Consider this: You work for an organisation in East Africa. The organisation sells treadle pumps (used for farmland irrigation) to the local farmers. After years of operation, you notice that in some regions the treadle pumps sell extremely well, while in other regions they don't sell at all. You've been tasked with generating sales of the pumps in those weak-performing regions.

What do you do? We will get to the answer is just a minute.

Design Thinking is a problem-solving framework. Tim Brown, CEO of IDEO, defines design thinking like this:

"The mission of design thinking is to translate observation into insights and insights into products and services that will improve lives."

The goal of improving lives is an important endpoint to the process of design thinking. In fact, it's what design thinking is all about: finding fresh, creative solutions to problems, but in a way that puts people and their needs first.

So, what exactly is design thinking and how can you use and apply it to solve any problem? Comparing traditional problem-solving techniques with design thinking can answer these questions:

- Traditional: Traditional problem-solving often takes a methodical, almost scientific form. Pinpoint a problem, define the steps to take and tools to use to reach a solution, then stick to the plan and hope for the desired result. It's straightforward, but not always flexible, innovative or effective. What if the issue identified isn't the real source of the problem? What if the steps don't lead to the right solution?
- Design Thinking: Instead of starting with a problem, design thinking starts with observation. It's informed by an understanding of the culture and the context of a problem (what people need), rather than the problem.

Design thinking came to the rescue for the organisation selling treadle pumps in East Africa. They were able to identify why their product wasn't selling in some regions and they found a solution. The solution didn't surface after an analysis of the problem itself — low sales. It wasn't found after an 8-hour corporate brainstorm in a New

York high-rise, with people in suits debating over charts and economic forecasts. The solution was born from a deep level of observation of the people who weren't buying the pumps, and the cultures they were a part of.

Problem Reframing

Everything really comes down to solving problems. To be successful and a leader in your field, you not only have to come up with good solutions; you need to be innovative. And that can feel like waiting for lightning to strike.
Sometimes we need to reposition our own problems. People do not actually need mobile phones (nouns). People only need to communicate (verbs). So the problem at the cell phone level may be important. The important thing is how to make people communicate better and more conveniently.
Reframing a problem helps you see it as an opportunity. Tina Seelig, who has been teaching classes on creativity and innovation at Stanford University School of Engineering for 16 years, offers three techniques for finding innovative solutions:

1. Rethink the question:
Start by questioning the question you're asking in the first place. Before you start brainstorming, Seelig suggests you start "frame-storming": brainstorming around the question you will pose to find solutions. For example, if you're asking, "How should we plan a birthday party for David?" you're assuming it's a party. If you change your question to, "How can we make David's day memorable?" or "How can we make David's day special?" you will find different sets of solutions.
Refocusing the question changes our lens: Memorable is different than special – memorable might involve a prank, for example. Once you reframe the questions, you might decide to select the best or address them all. Each new question opens up your ability to generate new ideas.
2. Brainstorm bad ideas:
When an individual or group is tasked with being creative, often there's pressure to only come up with good ideas. Seelig likes to challenge teams to only think of bad ideas.
"Stupid or ridiculous ideas open up the frame by allowing you to push past obvious solutions," she says. "There is no pressure to come up with 'good' ideas. Then, those terrible ideas can be re-evaluated, often turning them into something unique and brilliant."
Once you have a list of bad ideas, brainstorm how they can become good ideas. In one of Seelig's classes, a bad idea was selling bikinis in Antarctica. A group that was tasked with making this idea a good one came up with the idea to take people who want to get into shape on a trip to Antarctica. By the end of the hard journey, they would be able to fit into their bikinis. Their slogan was "Bikini or Die."
"Selling bikinis in Antarctica sounds like a really bad idea. But within five seconds, when asked to look at it differently, the team came up with a way to transform it into a really interesting idea," she says.
3. Unpack your assumptions:
Another way to reframe a problem is to challenge its perceived limitations or rules. Ask, "What are all of the assumptions of the industry?" Make a list and turn them upside down by thinking about what would happen if you did the opposite.
Seelig says this is a hard exercise because a lot of our assumptions are deeply ingrained. "Cirque du Soleil challenged assumptions about what a circus is. Instead of cheap entertainment for kids, they turned it into a high-end event for adults that competes with the theatre or opera," she says. "In addition, Southwest challenged the assumption that airlines had to have fixed seat assignments. This opened the possibility of having riders line up before each flight–a radically different approach to seating."

Focus on Extreme Users

Designing a solution that will work for everyone means talking to both extreme users and those squarely in the middle of your target audience.
An idea that suits an extreme user will nearly certainly work for the majority of others. And without understanding what people on the far reaches of your solution need, you'll never arrive at solutions that can work for everyone. More importantly, talking to Extreme users can spark your creativity by exposing you to use cases, hacks, and design opportunities that you'd never have imagined.
You work on a solution with extreme users in mind by following three simple steps:

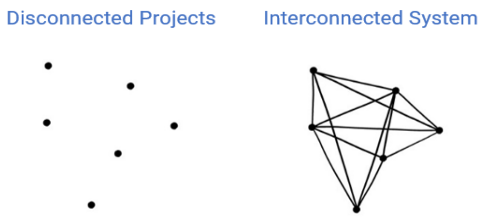
- *Determine who is extreme***:** Determining who is an extreme user starts with considering what aspect of your design challenge you want to explore to an extreme. List a number of facets to explore within your design space. Then think of people who may be extreme in those facets. For example, if you are redesigning the grocery store shopping experience you might consider the following aspects: how groceries are gathered, how payment is made, how purchase choices are made, how people get their groceries home, etc. Then to consider the aspect of gathering groceries, for example, you might talk to professional shoppers, someone who uses a shopping cart to gather recyclables (and thus overloads the cart), product pullers for online buyers, people who bring their kids shopping with them, or someone who doesn't go to grocery stores.

- *Engage*: Observe and interview your extreme user as you would other folks. Look for workarounds (or other extreme behaviours) that can serve as an inspiration and uncover insights.
- *Look at the extreme in all of us*: Look to extreme users for inspiration and to spur wild ideas. Then work to understand what resonates with the primary users you are designing for.

When you speak with and observe extreme users, their needs are amplified and their workarounds are often more notable. This helps you pull out meaningful needs that may not pop when engaging with the middle of the bell curve.

System Thinking

Design thinking is a process of integrating different things into a system. We must observe the entire system that involves innovation. For example, when designing medical devices, we cannot consider the needs of users individually.
WHO has the largest budget and perhaps the most authority within its specified field.
The systems we need to consider will involve many elements: busy doctors, stressful work, patient's mood, hospital space, and the rest of the equipment. Equipment manufacturers, government medical insurance, etc. are all within our scope of innovation.



That's why *systemic design thinking* is a recent initiative that integrates system thinking and human-centred design, with the intention of helping with complex projects. The recent challenges coming from the increased complexity caused by globalisation, migration or sustainability render traditional design thinking methods insufficient.
Systemic design intends to develop methodologies and approaches that help to integrate systems thinking with design thinking towards sustainability on an environmental, social, and economic level. It is a pluralistic initiative where many different approaches are encouraged to thrive and where dialogue and organic development of new practices play a major role.

Core Principles

The popularisation of design thinking as a tool for innovation resulted in large global corporations adopting design disciplines into their ways of working, for example, Google, Samsung, and IBM. While all of these might differ in detail, they commonly share these four core principles:

- *Always ask questions:* The only way to get to answers is to simply ask questions, both to yourself and your colleagues. The more questions they ask, the better the answer can be.
- *Focus on people:* Design thinking is a human-centred approach to innovation that draws from the designer's toolkit to integrate the needs of people, the possibilities of technology and the requirements for project success. It's not 'us versus them' or even 'us on behalf of them.' For a design thinker, it has to be 'us with them.'
- *Collaborate*: Using the full mental power of the people involved is key. Usually, companies don't do that because they're stuck in old structures and linear processes with departments fighting with each other, and large hierarchical systems.
- *Build your process around possibility*: Design is built on the possibility of the never-seen-before. Design thinking starts with understanding, exploring and materialising a solution or a concept.

Five Stages of Design Thinking

The Hasso-Plattner Institute of Design at Stanford (d.school) is the leading university when it comes to teaching Design Thinking. The five stages of Design Thinking, according to d.school, are as follows: Empathise, Define (the problem), Ideate, Prototype, and Test.

Empathise

"Empathise" is the first stage of the Design Thinking process. In the empathise stage, your goal, as a designer, is to gain an empathic understanding of the people you're designing for and the problem you are trying to solve. This process involves observing, engaging, and empathising with the people you are designing for in order to understand their experiences and motivations, as well as immersing yourself in their physical environment in order to have a deeper personal understanding of the issues, needs and challenges involved.

Empathy is crucial to a human-centred design process such as Design Thinking, and empathy helps design thinkers to set aside his or her own assumptions about the world in order to gain insight into their users and their needs. Depending on your time constraints, you will want to gather a substantial amount of information at this stage of the Design Thinking process.

In the Empathise stage of a Design Thinking process, you will develop the empathy, understandings, experiences, insights, and observations on which you will use to build the rest of your design project.

The following are some of the most popular Empathise methods:

- Assume a beginner's mindset
- Ask What-How-Why
- Conduct interviews
- Build empathy with analogies
- Use photo and video user-based studies
- Use personal photo and video journals
- Create journey maps

It is how important to develop the best possible understanding of your users, their needs, and the problems that underlie the development of the particular product or service you are aiming to design.

Define the problem

During the Define stage, you put together the information you have created and gathered during the Empathise stage. This is where you will analyse your observations and synthesise them in order to define the core problems that you and your team have identified up to this point.

A problem statement is important to a Design Thinking project because it will guide you and your team and provides a focus on the specific needs that you have uncovered. It also creates a sense of possibility and optimism that allows team members to spark off ideas in the Ideation stage, which is the third and following stage in the Design Thinking process. A good problem statement should thus have the following traits. It should be:

- *Human-centred*: This requires you to frame your problem statement according to specific users, their needs and the insights that your team has gained in the Empathise phase. The problem statement should be about the people the team is trying to help, rather than focusing on technology, monetary returns or product specifications.
- *Broad enough for creative freedom:* This means that the problem statement should not focus too narrowly on a specific method regarding the implementation of the solution. The problem statement should also not list technical requirements, as this would unnecessarily restrict the team and prevent them from exploring areas that might bring unexpected value and insight to the project.
- *Narrow enough to make it manageable*: On the other hand, a problem statement such as "Improve the human condition," is too broad and will likely cause team members to easily feel daunted. Problem statements should have sufficient constraints to make the project manageable.

To illustrate, instead of defining the problem as your own wish or a need of the company such as, "We need to increase our food-product market share among young teenage girls by 5%," a much better way to define the problem would be, "Teenage girls need to eat nutritious food in order to thrive, be healthy and grow."

The Define stage will help the designers in your team gather great ideas to establish features, functions, and any other elements that will allow them to solve the problems or, at the very least, allow users to resolve issues themselves with the minimum of difficulty. In the Define stage, you will start to progress to the third stage, Ideate, by asking questions which can help you look for ideas for solutions by asking: "How might we… encourage teenage girls to perform an action that benefits them and also involves your company's food-product or service?"

Ideate

During the third stage of the Design Thinking process, you are ready to start generating ideas. You've grown to understand your users and their needs in the Empathise stage, and you've analysed and synthesised your observations in the Define stage, and ended up with a human-centred problem statement. With this solid background, you and your team members can start to "think outside the box" to identify new solutions to the problem statement you've created, and you can start to look for alternative ways of viewing the problem.

The main aim of the Ideation stage is to use creativity and innovation in order to develop solutions. By expanding the solution space, the design team will be able to look beyond the usual methods of solving problems in order to find better, more elegant, and satisfying solutions to problems that affect a user's experience of a product.

There are hundreds of Ideation techniques such as Brainstorming, Co-Creation Workshops, Mind-mapping, and Storyboards. It is important to get as many ideas or problem solutions as possible at the beginning of the Ideation phase.

Brainstorming is a great way to generate many ideas by leveraging the collective thinking of the group, by engaging with each other, listening, and building on other ideas. This method involves focusing on one problem or challenge at a time, while team members build on each other's responses and ideas with the aim of generating as many potential solutions as possible. These can then be refined and narrowed down to the best solution(s). Participants must then select the best, the most practical, or the most innovative ideas from the options they've come up with.

Here are a few guidelines that will help you in the Ideation stage:

- *Set a time limit*
- *Start with a problem statement and stay focused on the topic*: Identify the core subject or the main aim of the exercise. Condense the main issue into a problem statement and condense it into a short "How Might We" sentence. You may even be able to synthesise this into a single word. Your ideas should always branch off from this central headline.
- *Defer judgment or criticism, including non-verbal*: The brainstorming environment is not the time to argue or for question other members' ideas.
- *Encourage weird, wacky and wild ideas*: Free thinking may produce some ideas that are wide off the mark, but brainstorming is about drawing up as many ideas as possible which are then whittled down until the best possible option remains.
- *Aim for quantity*: Brainstorming is effectively a creative exercise, in which design thinkers are encouraged to let their imaginations run wild. The emphasis is on quantity, rather than quality at this stage.
- *Build on each others' ideas:* One idea typically leads on from another; by considering the thoughts, opinions, and ideas of other team members during the brainstorming session, new insights and perspectives can be achieved, which then inform one's own ideas.
- *Be visual:* The physical act of writing something down or drawing an image in order to bring an idea to life can help people think up new ideas or view the same ideas in a different way.
- *One conversation at a time:* Design thinkers (or brainstormers) should focus on one point or conversation at a time so as not to muddy their thinking and lose sight of the thread or current objective.

Prototype

The design team will now produce a number of inexpensive, scaled-down versions of the product or specific features found within the product, so they can investigate the problem solutions generated in the previous stage. Prototypes may be shared and tested within the team itself, in other departments, or on a small group of people outside the design team. This is an experimental phase, and the aim is to identify the best possible solution for each of the problems identified during the first three stages.

Prototypes are built so that designers can think about their solutions in a different way (tangible product rather than abstract ideas), as well as to fail quickly and cheaply, so that less time and money is invested in an idea that turns out to be a bad one.

The solutions are implemented within the prototypes, and, one by one, they are investigated and either accepted, improved and re-examined or rejected on the basis of the users' experiences. By the end of this stage, the design team will have a better idea of the constraints inherent to the product and the problems that are present, and have a clearer view of how real users would behave, think, and feel when interacting with the end product.

For instance, when developing software, a design team may produce a number of paper prototypes, which the user can gradually work through in order to demonstrate to the design team or evaluators how they may tackle certain

tasks or problems. When developing tangible devices, such as the computer mouse, designers may use a number of different materials to enable them to test the basic technology underlying the product. With advances in 3D printing technology, producing prototypes is now often a more instant and low-cost process.
It is important to remember that prototypes are supposed to be quick and easy tests of design solutions. Here are a few guidelines that will help you in the Prototyping stage:

- *Just start building*: Design Thinking has a bias towards action: that means if you have any uncertainties about what you are trying to achieve, your best bet is to just make something. Creating a prototype will help you to think about your idea in a concrete manner, and potentially allow you to gain insights into ways you can improve your idea.
- *Don't spend too much time*: Prototyping is all about speed; the longer you spend building your prototype, the more emotionally attached you can get with your idea, thus hampering your ability to objectively judge its merits.
- *Remember what you're testing for*: All prototypes should have a central testing issue. Do not lose sight of that issue, but at the same time, do not get so bound to it so as to lose sight of other lessons you could learn from.
- *Build with the user in mind*: Test the prototype against your expected user behaviours and user needs. Then, learn from the gaps in expectations and realities, and improve your ideas.

Test

Designers or evaluators rigorously test the complete product using the best solutions identified during the prototyping phase. This is the final stage of the 5 stage-model, but in an iterative process, the results generated during the testing phase are often used to redefine one or more problems and inform the understanding of the users, the conditions of use, how people think, behave, and feel, and to empathise. Even during this phase, alterations and refinements are made in order to rule out problem solutions and derive as deep an understanding of the product and its users as possible.
When conducting a user test on your prototype, it is ideal to utilise a natural setting (i.e., the normal environment in which your users would use the prototype). If testing in a natural setting proves difficult, try to get users to perform a task, or play a role, when testing the prototype. The key is to get users to be using the prototype as they would in real life, as much as possible.
Here are a few guidelines that will help you in the Testing stage:

- *Let your users compare alternatives*: Create multiple prototypes, each with a change in a variable, so that your users can compare prototypes and tell you which they prefer (and which they don't). Users often find it easier to elucidate what they like and dislike about prototypes when they can compare, rather than if there was only one to interact with.
- *Show, don't tell: let your users experience the prototype*: Avoid over-explaining how your prototype works, or how it is supposed to solve your user's problems. Let the users' experience in using the prototype speak for itself, and observe their reactions.
- *Ask users to talk through their experience*: When users are exploring and using the prototype, ask them to tell you what they're thinking. This may take some getting used to for most users, so it may be a good idea to chat about an unrelated topic, and then prompt them by asking them questions such as, "What are you thinking right now as you are doing this?"
- *Observe*: Observe how your users use — either "correctly" or "incorrectly" — your prototype, and try to resist the urge to correct them when they misinterpret how it's supposed to be used. User mistakes are valuable learning opportunities. Remember that you are testing the prototype, not the user.
- *Ask follow up questions*: Always follow up with questions, even if you think you know what the user means. Ask questions such as, "What do you mean when you say …?", "How did that make you feel?", and most importantly, "Why?"

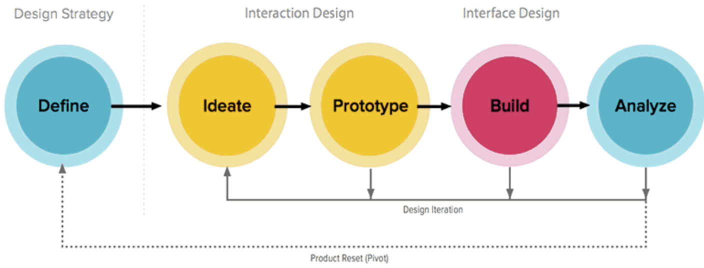
If users experience difficulties, the design team must revisit their list of potential solutions and strategies in order to establish new ways to solve the same problems. Testing can also help identify previously unconsidered problems. The users' feedback is priceless; without an understanding of what users need in order to carry out their activities and tasks, the iterative design process and solution will fail.

Other Design Thinking Models

The simplicity of the "Five Stages Model" is considered both an advantage and a disadvantage. That's why two newer models called ZURB and the Double-Diamond method expand the "Five Stages Model" by introducing new important aspects.

ZURB

The *ZURB Design Thinking* Model shares the D.School's simplicity but also considers important stages such as building the final product and getting feedback. The ZURB model includes five stages; *Define, Ideate, Prototype, Build* and *Analyse*. The last two stages represent the build of the final product and analysis of the market impact and user feedback.



This model presents two types of the iteration cycles; the design iteration, and the product reset (pivot):

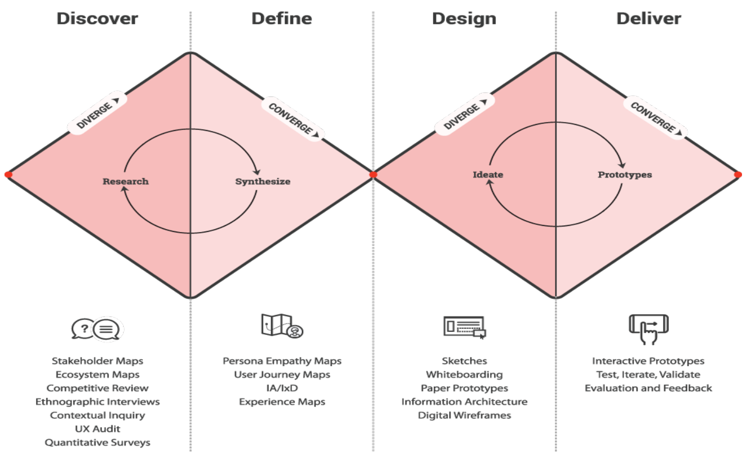
- The first type includes the iteration between the stages ideate, prototype, build and analyse. If something wrong happens, the team can iterate between the four stages above to file problems and improve the product.
- The second iteration process is a hard reset. If there is a major failure or the product does not meet the requirements, the product resets and returns directly to the define stage to repeat the process from scratch and define the problem again.

You have probably noticed that the "build" and "analyse" phases are two stages that we have not seen so far:

- The build phase is where you take all the information and feedback gathered from prototyping and you begin to build the product with design layouts and build upon your already established front-end coding. Thus, resulting in your final iteration.
- Once your product has been made available for the world audience, you should dive right into the analyse phase of the design process. In this phase, you will gain insight into your newly published product. You attain these insights through product research and user feedback.

Double-Diamond

The Double Diamond Diagram was developed by the *British Design Council* as part of their in-house research to identify how leading companies manage the design process. The Double-Diamond process includes four main stages; *Discover, Define, Design, and Deliver.* The first two stages define the project strategy, while the third and fourth represent the executive solution.



Using the double diamond, you approach problems and solutions by using two different types of thinking: divergent and convergent:

- *Divergent thinking*: think broadly, keep an open mind, consider anything and everything (Discover and Design phases)

- *Convergent thinking*: think narrowly, bring back focus and identify one or two key problems and solutions (Define and Deliver phases)

The four main phases are as follows:
- *Discover*: The first quarter of the Double Diamond model covers the start of the project. Designers try to look at the world in a fresh way, notice new things and gather insights.
- *Define*: The second quarter represents the definition stage, in which designers try to make sense of all the possibilities identified in the Discover phase. Which matters most? Which should we act on first? What is feasible? The goal here is to develop a clear creative brief that frames the fundamental design challenge.
- *Design*: The third quarter marks a period of development where solutions or concepts are created, prototyped, tested and iterated. This process of trial and error helps designers to improve and refine their ideas.
- *Deliver*: The final quarter of the double diamond model is the delivery stage, where the resulting project (a product, service or environment, for example) is finalised, produced, and launched.

Benefits of Design Thinking

As a manager, you have a pivotal role to play in shaping the products and experiences that your company puts to market. Integrating Design Thinking can add huge business value, ultimately ensuring that your products are desirable for customers and viable in terms of company resources.
With that in mind, let's consider some of the main benefits of using Design Thinking at work:
- *Significantly reduces time-to-market:* With its emphasis on problem-solving and finding viable solutions, Design Thinking can significantly reduce the amount of time spent on design and development—especially in combination with lean and agile.
- *Cost savings and a great ROI:* Getting successful products to market faster ultimately saves the business money. Design Thinking has been proven to yield a significant return on investment; teams that are applying IBM's Design Thinking practices, for example, have calculated an ROI of up to 300% as a result.
- *Improves customer retention and loyalty:* Design Thinking ensures a user-centric approach, which ultimately boosts user engagement and customer retention in the long term.
- *Fosters innovation:* Design Thinking is all about challenging assumptions and established beliefs, encouraging all stakeholders to think outside the box. This fosters a culture of innovation which extends well beyond the design team.
- *Can be applied company-wide*: The great thing about Design Thinking is that it's not just for designers. It leverages group thinking and encourages cross-team collaboration. What's more, it can be applied to virtually any team in any industry.

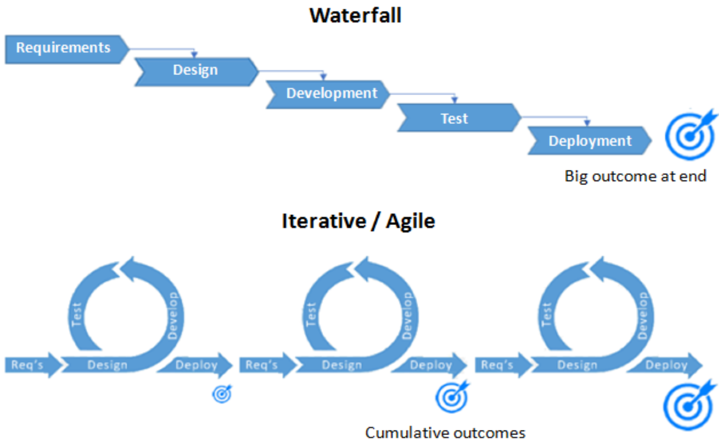
Whether you're establishing a Design Thinking culture on a company-wide scale, or simply trying to improve your approach to user-centric design, Design Thinking will help you to innovate, focus on the user, and ultimately design products that solve real user problems.

Lean & Agile Management

Now that we know what Design Thinking is, let's consider how it fits into the overall product management process. You may have heard terms like "lean" and "agile" in the work environment already. It is important to understand what these two approaches are and how they interact with Design Thinking.
Based on the principles of lean manufacturing, *lean management* focuses on streamlining the work process as much as possible—minimising waste and maximising value. Some core tenets of lean management are:
- Cross-functional collaboration between designers, engineers, and product managers.
- Gathering feedback quickly and continuously, ensuring that you're constantly learning and adapting as you go.
- Deciding as late as possible and delivering fast, with less focus on long-term deliverables.
- A strong emphasis on how the team operates as a whole.

Lean management is a technique that works in conjunction with *agile* development methods. Agile is a software development process that works in *iterative*, incremental cycles known as sprints. Unlike traditional development methods (such as the *waterfall* method), agile is flexible and adaptive. Based on the Agile Development Manifesto, agile adheres to the following principles:
- Individuals and interactions over processes and tools.
- Working software over comprehensive documentation.

- Customer collaboration over contract negotiation.
- Responding to change over following a plan.



Design Thinking, lean, and agile are often seen as three separate approaches. Companies and teams will ask themselves whether to use lean or agile or Design Thinking—but actually, they can (and should!) be merged for optimal results.
Why? Because applying Design Thinking in a lean, agile environment helps to create a product development process that is not only user-centric but also highly efficient from a business perspective. While it's true that each approach has its own modus operandi, there is also significant overlap. Combining principles from each can be crucial in keeping cross-functional teams on the same page—ensuring that designers, developers, product managers, and business stakeholders are all collaborating on one common vision.

Design Thinking is how we explore and solve problems; Lean is our framework for testing our beliefs and learning our way to the right outcomes; Agile is how we adapt to changing conditions with software.
As we've learned, Design Thinking is a solution-based approach to exploring and solving problems. It focuses on generating ideas with a specific problem in mind, keeping the user at the heart of the process throughout. Once you've established and designed a suitable solution, you'll start to incorporate lean principles—testing your ideas, gathering quick and ongoing feedback to see what works—with particular emphasis on cross-team collaboration and overcoming departmental silos. Agile ties all of this into short sprint cycles, allowing for adaptability in the face of change. In an agile environment, products are improved and built upon incrementally. Again, cross-team collaboration plays a crucial role; agile is all about delivering value that benefits both the end-user and the business as a whole.
Together, Design Thinking, lean, and agile cut out unnecessary processes and documentation, leveraging the contributions of all key stakeholders for continuous delivery and improvement.

Case Study

You might be thinking by now: "This is great but how is this going to help to quickly make my product a reality?" In order to make Design Thinking somewhat more tangible, we will discuss a detailed case study in this last part of the course.

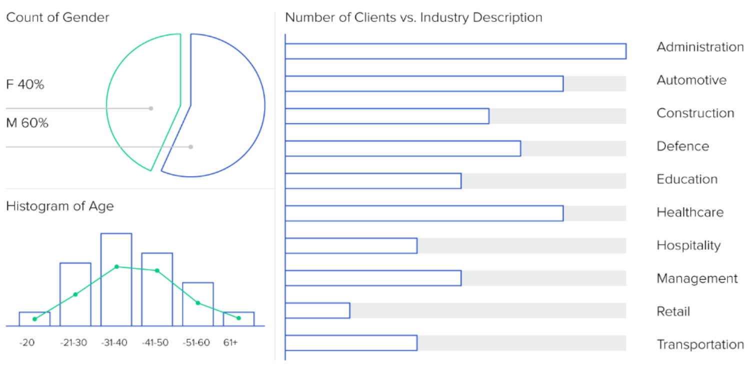
Case Study: Intro

Imagine that you found yourself at a meeting with an entrepreneur, a few managers, and many ideas flying around the room. Your direct competitor had recently released a new application and the tension was palpable. The company wanted to go out with something new on the market, to avoid losing ground to your competitor.
They prepared a document with some requirements, a vague idea of what the product should look like, and how much should it cost.
"We have to follow what others have done, with a lower price," the Marketing Director said. "We have to create a more usable system, which simplifies the user journey," added another manager. "We have to change the way we collect information, simplify it and integrate our processes with third parties," said another. "It will take us months," the technical manager shook his head, who mentally translated all those requests into hundreds of hours of code to be implemented.
The product in this case study concerns a so-called hub communication software. This piece of software managed different channels (email to SMS, fax to VoIP) and it was created for the web and mobile platforms. The product

was originally created a few years before, but its usability was poor. At the time of the launch, the competitor was far ahead in terms of user experience. Moreover, they had an excellent mobile app, which was gaining ground in the mobile app store.
Company X was a traditional process-driven company, familiar with traditional projects. It was new to the idea of creating a product with the help of Design Thinking. More notably, they feared the unknown. What if the new product would have an undesirable or unpredictable effect on their customer user base? This lack of control didn't inspire confidence.
The meeting described above did not lead to a clear definition of what the product to be achieved actually was. You only knew that you had to hit the target as soon as possible.
However, as the project progressed and a competitor was beginning to gain traction, consent from the company was solidifying. Despite some initial perplexity and fear, this was an opportunity to learn what would bring real value to their user base and potentially attract more users by making a streamlined lightweight product.
This prompted the company to look for approaches that they haven't tried before, in order to have a complete product built on time even if it's going to have only essential features at its launch. You decided to use the Design Thinking process and focus on the things that would really bring value to the end-user and thus, beat the competition by bringing only what's necessary to the customer.

Case Study: Empathise

The goal of this phase is to understand your customer, by searching and gathering information about their business. During this phase, we can use several different tools, such as interviews, focus groups, observations, and surveys. In the most literal sense, empathy is the ability to understand and share the emotions of others. In design thinking, empathy is a "deep understanding of the problems and realities of the people you are designing for."
Your first step was to ensure that the Highest Paid Person's Opinion (otherwise known as HiPPO) was not ruling over everyone else's. Therefore, together with managers and the founder, you have compiled a list of possible stakeholders to be involved in the decision-making process.
In a day-long meeting, you compiled the first list of 30 names (between employees, functional managers, and customers) that could be contacted directly and then you also picked a target audience of 4000 customers (about 10% of their recurring customer user base).
You tried to "normalise" our target customer base as much as possible, by including diversity in terms of gender distribution, industry, and other data points. To add an additional level of complexity, the physical location of the sample to be interviewed were all divided into different cities and in some cases countries. You now had points of contacts to carry out interviews and questionnaires.



The group was organised to carry out the interviews remotely, following a scripted set of questions and some basic rules:

- Try to understand the main "What, How, Why" behind every behaviour.
- Make sure the interviewee used a webcam and that there was sufficient distance from the camera to be able to at least partially include the body language.
- Record all interviews, in case they need to be seen in the future.

You prepared your interview questions with the intention of understanding which main features should be enhanced or eliminated, such that you could quickly build a new version that responded to the needs of your users.
For the second group of users, you prepared a series of questions in a Google form. You opted for multiple-choice questions, with some formulated open-ended questions to facilitate more interaction from the users, including a question requiring the user to try the new version of the product just available in closed beta.

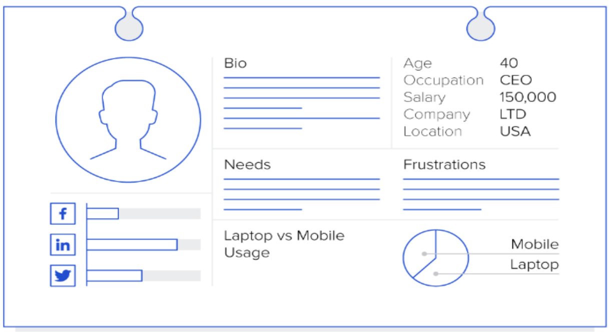
The first results of the interviews were encouraging, as the interviewees were open to providing feedback on the weaknesses and the strengths of the system.

Case Study: Define

In this phase, we collect and categorise information from the Empathise phase. It's here where we define User Personas and User Journeys.
The dictionary meaning of define is "to determine the identity and the essential qualities of a notion." In your case you want to define the following:

- your ideal customers
- their problems
- the solutions to their problems
- the needs and fears of your customers that you had to address

In the design thinking terms, the define phase is where you analyse your observations and synthesise them into core problems that you have identified.
You had a sufficient database to understand what the real problems were. In addition to the feedback received in the Empathise phase, it contained points that were highlighted by Company X employees but had never been pointed out to management, as well as strengths, weaknesses, and other problems that have never been taken into account.
The next action was to create your User Personas. During this brainstorming phase, you involved the entire extended team.

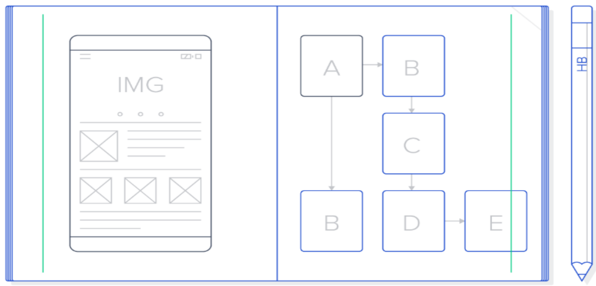


For each Persona, you identified their biography, their approach to technology, their use of social media, preferred brands, their needs, and ideas and speculated on what would have been their Customer Journey.
After this, you had selected the common client User Personas and had a finished set of data coming from interviews and surveys. This was the right time to get your hands dirty.
During the definition phase, you tried to transform a generic definition of a problem like, "We need a product that will increase our sales by 10%," into a more specific solution like: "Men and adult women, between 35 and 45 years that are working in an office need to receive communications that have a legal validity to be sure that the sender is actually who they say they are."
At this point in the project process, you had completed brainstorming sessions around our users, hypothesised solutions, and kept an open mind to every possible innovation. "The only stupid idea is the one never expressed" was the mantra.
In a short time, bearing in mind who your subjects were, you had a clear view of what was useful to our users, along with what needs and fears you should address along the customer journey.

Case Study: Ideate

One step further from the definition is the Ideation phase, where the key is forming real concepts and solution, not just abstract definitions.
In design thinking terms, ideation is "the process where you generate ideas and solutions through sessions such as Sketching, Brainstorming, Mind-mapping, Worst Possible Idea, and a wealth of other ideation techniques."
Your team decided to proceed to work in a Lean way when producing materials and reviewing them. For example, designers and other members of the team have agreed that to be as fast as possible, the best solution would be to start with drawings on paper and to share photos of them in the group. Only then you would produce the most interesting designs on a computer.

For each sketch that was produced, you gathered information from users, you defined a set of solutions and you came back to those users (whenever it was possible and as often as it was possible) to test with them the process and the result.



Case Study: Prototype

During this phase, something tangible is created, that will allow you to verify your idea in real life. Don't overcomplicate and create this prototype as quickly as possible.

During the prototype phase, it was finally time to make your definitions and ideas come to life. A prototype is the first, original model of a proposed product, and this is exactly what you set out to build. By design thinking standards, the prototype stage is where you create inexpensive, scaled-down versions of the real product to investigate solutions from the previous stages.

After almost ten days from the beginning of your journey, you arrived at the crucial moment, a meeting with a developer team where you had a chance to check your assumptions and estimations. After a session of consultation and definition with the team of developers, you weighed the stories and understood that the major effort of the development work will be in the development of the back-end system. Alongside this, you also realised that creating the front-end systems will be a much shorter exercise. Thus, you decided to create a front-end prototype using the components which already existed in the system to save time.

After three days you had your first version of the prototype ready. It had "fake" data which reflected the behaviour of the software you were aiming to create. Some accessory elements were missing, but the software in that state visually represented a good percentage of total content planned.

At the end of two weeks of work, you had software that you could try and test with actual users. You used user experience monitoring software to analyse how users were navigating your prototype.

Case Study: Test

Verify your idea in real life with actual users. Get feedback. Ask questions on how to improve it. Translate this collected knowledge into a final product.

After the definition, ideation and prototype phases it was finally time to see if your product actually worked in real life. In design thinking terms, testing means putting the complete product to trial using the best solutions created in the prototyping phase.

In your case, the testing phase did not only take place at the end, but it was a constant loop of feedback and iteration whenever it was possible. At the end of each accomplished step, you tried to get feedback from users or customers, before convincing yourself to move on to the next phase.

Once the prototype was completed, it was time to test it with the widest possible audience and check with them how effectively it met their needs, understand their perception, and understand if it accomplished their goals.
The testing phase specifically included a walkthrough prototype where users were able to see the new workflow and perform actions, along with a few sessions where the team directly observed users, while tracking their responses. A simple questionnaire was used where users were asked to score the process from 1-10.
The testing phase was later extended to the whole team and some individuals outside the organisation (customers and users) who during the earlier sessions, had willingly consented to give their feedback on the implementation of the system.
The results of this testing were encouraging. The stakeholders of the Company X were able not only to see the mockups but to try out and “touch” the product for the very first time. The extended team had the opportunity to test and verify their assumptions and correct them over time within a period of two weeks.
With the help of Design Thinking, you were able to collect data, ideas, personas, feedback and create your first tangible prototype. It was then time to roll up your sleeves and start developing the final product.
Instead of using more traditional approaches and producing things in sequential steps, you have chosen to iterate through the five design thinking stages. Empathise. Define. Ideate. Prototype. Test. This became your mantra and allowed you to produce a very well-received product.
Using Design Thinking has lead you to save time, and in turn, save costs spend on the project. You were not working on millions of different features, but only on a few, well thought through actions that were clear to everybody in the team. Most importantly, you were able to deliver the product and value that users needed.

Conclusion

In this course, you learned that Design Thinking has a human-centred core. You now possess a deep understanding of how it encourages organisations to focus on the people you are creating for, which leads to better products, services, and internal processes.
In employing design thinking, you are pulling together what’s desirable from a human point of view with what is technologically feasible and economically viable. It also allows those who are not trained as designers to use creative tools to address a vast range of challenges. The process starts with taking action and understanding the right questions. It’s about embracing simple mindset shifts and tackling problems from a new direction.
Throughout this course, you saw that design thinking can…

- help you or your team spot unmet needs of the people you are creating for,
- reduce the risk associated with launching new ideas,
- generate solutions that are revolutionary, not just incremental, and
- help organisations learn faster.

Design Thinking has become more than just a creative process. What was originally intended as an innovation method, has advanced to a completely new way of seeing people in relation to work, of imagining the concept of work. The appeal of Design Thinking lies in its ability to inspire new and surprising forms of creative teamwork. “We-intelligence” is the new catchword and collaboration the foundation for a new work awareness.

FINANCIAL MANAGEMENT

BASIC FINANCIAL CONCEPTS

Introduction

Welcome to Basic Financial Concepts!

This course emphasises and develops a basic understanding of financial concepts, financial tools, and major decision areas related to the financial management of a business or organisation.

Finance is a broad term that describes activities associated with banking, leverage or debt, credit, capital markets, money, and investments. Basically, finance represents money management and the process of acquiring needed funds. Finance also encompasses the oversight, creation, and study of money, investments, assets, and liabilities that make up financial systems.

We'll discuss concepts like Dollar Cost Averaging (DCA) and Diversification, which are especially useful for individual investors. We will also plunge into some of the more complex academic explanations – like the Efficient Market Hypothesis or the Capital Asset Pricing Model (CAPM). Many of the concepts in finance originate from micro and macroeconomic theories.

Since individuals, businesses, and government entities all need funding to operate, the finance field includes three main sub-categories: personal finance, corporate finance, and public finance.

- *Personal Finance* involves analysing the current financial position of individuals to formulate strategies for future needs within financial constraints. Financial strategies depend largely on the person's earnings, living requirements, goals, and desires.
- *Corporate Finance* refers to financial activities related to running a corporation. For example, a large company may have to decide whether to raise additional funds or startups may receive capital from angel investors.
- *Public Finance* includes tax, spending, budgeting, and debt issuance policies that affect how a government pays for the services it provides to the public. The federal government helps prevent market failure by overseeing the allocation of resources and economic stability.

This course is directed toward the businessperson who must have financial knowledge but has not had advanced formal training in finance – perhaps a newly promoted middle manager or a marketing manager of a small company who must know some basic finance concepts. The entrepreneur or sole proprietor also needs this knowledge; he or she may have brilliant product ideas, but not the slightest idea about financing.

Risk-Return and TVM

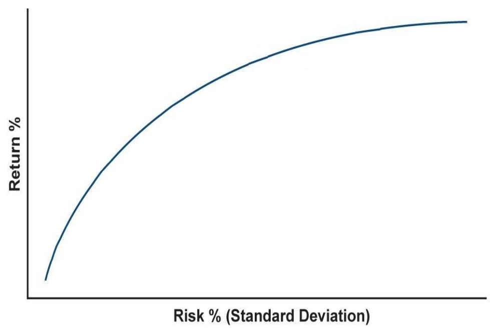
The risk-return tradeoff states that higher risk is associated with greater probability of higher return and lower risk with a greater probability of smaller return. Time value of money (TVM) is the idea that money that is available at the present time is worth more than the same amount in the future.

Risk and Return

The Risk-Return Tradeoff could easily be called the "ability-to-sleep-at-night test." While some people can handle the equivalent of financial skydiving without batting an eye, others are terrified to climb the financial ladder without a secure harness.

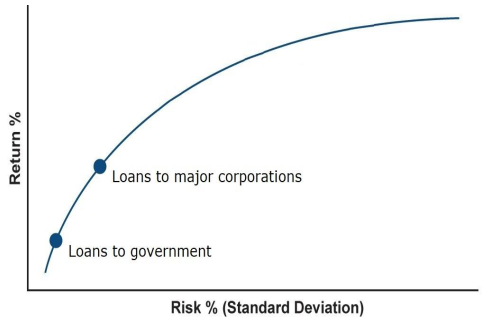
Depending upon factors like your age, income, and investment goals, you may be willing to take significant financial risks in your investments, or you may prefer to keep things much safer. Deciding what amount of risk you can take while remaining comfortable with your investments is very important.

In the investing world, the dictionary definition of risk is the chance that an investment's actual return will be different than expected. Technically, this is measured in statistics by standard deviation. Risk means you have the possibility of losing some, or even all, of your original investment.



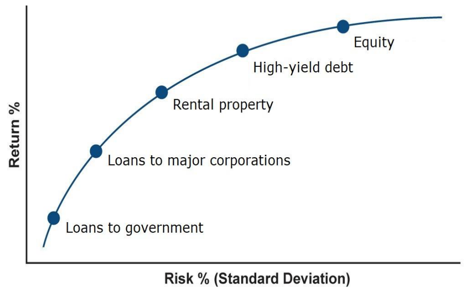
Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns.
The risk/return tradeoff is the balance between the desire for the lowest possible risk and the highest possible return. This is demonstrated graphically in the chart below. A higher standard deviation means a higher risk and higher possible return.
The risk-return tradeoff states that the potential return rises with an increase in risk. It is also called the "ability-to-sleep-at-night test."

Example
It's crucial to keep in mind that higher risk does NOT equal greater return. The risk-return tradeoff only indicates that higher risk levels are associated with the possibility of higher returns, but nothing is guaranteed. At the same time, higher risk also means higher potential losses on an investment.
On the lower end of the scale, the risk-free rate of return is represented by the return on *government securities* because their chance of default is next to nothing. If the risk-free rate is currently 6%, this means, with virtually no risk, we can earn 6% per year on our money.



The common question arises: who wants to earn 6% when *investment-grade corporate bonds* average 12% per year over the long run? The answer to this is that a corporate bond carries more risk. The return on corporate bonds is not 12% every year, but rather -5% one year, 25% the next year, and so on. An investor still faces substantially greater risk and volatility to get an overall return that is higher than a predictable government security. We call this additional return the *risk premium,* which in this case is 6% (12% – 6%).
Determining what risk level is most appropriate for you isn't an easy question to answer. Risk tolerance differs from person to person. Your decision will depend on your goals, income, and personal situation.

Progression
There are various *classes of possible investments*, each with their own positions on the overall risk-return spectrum. There is considerable overlap of the ranges for each investment class.
The general progression is: government debt – major corporations debt – property – high-yield debt – and equity. All this can be visualised by plotting expected return on the vertical axis against risk (represented by standard deviation upon that expected return) on the horizontal axis. This line starts at the risk-free rate and rises as risk rises.



Loans to government	On the lowest end is short-dated loans to the government. The lowest of all is the risk-free rate of return. However, there are also longer-term loans to the government, such as 3-year bonds. The range width is larger and follows the influence of increasing risk

	premium required as the maturity of that debt grows longer. Nevertheless, the highest end of the range is still comparatively low compared to the ranges of other investment types discussed below.
Loans to major corporations	Following the lowest-risk investments are short-dated loans to major corporations with the highest credit ratings. The further away from perfect the credit rating, the higher up the risk-return spectrum that particular investment will be. Longer-term debt from those same well-rated corporations is higher up the range because the maturity has increased.
Rental property	A commercial property that the investor rents out is comparable in risk or return to a low-investment grade. Industrial property has higher risk and returns, followed by residential.
High-yield debt	After the returns upon all classes of investment-grade debt come the returns on speculative-grade high-yield debt (also known as "junk bonds"). These may come from mid and low rated corporations and less politically stable governments.
Equity	Equity returns are the profits earned by businesses after interest and tax. Even the equity returns on the highest rated corporations are notably risky. Small-cap stocks are generally riskier than large-cap; companies that primarily service governments tend to be less volatile than those in other industries.

Time Value of Money

The time value of money (TVM) is one of the most fundamental theories in finance. It states that a dollar today is worth more than a dollar in the future.

The time value of money draws from the idea that rational investors prefer to receive money today rather than the same amount of money in the future because of money's potential to grow in value over a given period of time. For example, money deposited into a savings account earns a certain interest rate and is therefore said to be compounding in value.

Further illustrating the rational investor's preference, assume you have the option to choose between receiving $10,000 now versus $10,000 in two years. It's reasonable to assume most people would choose the first option.

Despite the equal value at the time of disbursement, receiving the $10,000 today has more value and utility to the beneficiary than receiving it in the future due to the opportunity costs associated with the wait. Such opportunity costs could include the potential gain on interest were that money received today and held in a savings account for two years.

The time value of money (TVM) is the idea that money received in the present is more valuable than the same sum in the future because of its potential to be invested and earn interest.

Diversification, DCA and Assets

There are a variety of techniques that organisations will use during the identification process to establish solid strategies to manage risks. Diversification, Dollar Cost Averaging (DCA), and Asset Allocation are three of the most essential risk-management techniques.

Diversification

Many individual investors can't tolerate the short-term fluctuations in the stock market. Diversifying your portfolio is the best way to smooth out the ride.

Diversification is a risk-management technique that mixes a wide variety of investments within a portfolio in order to minimise the impact that any one security will have on the overall performance of the portfolio. Diversification lowers the risk of your portfolio. Academics have complex formulas to demonstrate how this works, but we can explain it clearly with an example:

Suppose that you live on an island where the entire economy consists of only two companies: one sells umbrellas while the other sells sunscreen. If you invest your entire portfolio in the company that sells umbrellas, you'll have a strong performance during the rainy season, but poor performance when it's sunny outside. The reverse occurs with the sunscreen company, the alternative investment; your portfolio will be high performance when the sun is out, but it will tank when the clouds roll in.

Chances are you'd rather have constant, steady returns. The solution is to invest 50% in one company and 50% in the other. Because you have diversified your portfolio, you will get decent performance year-round instead of having either excellent or terrible performance depending on the season.

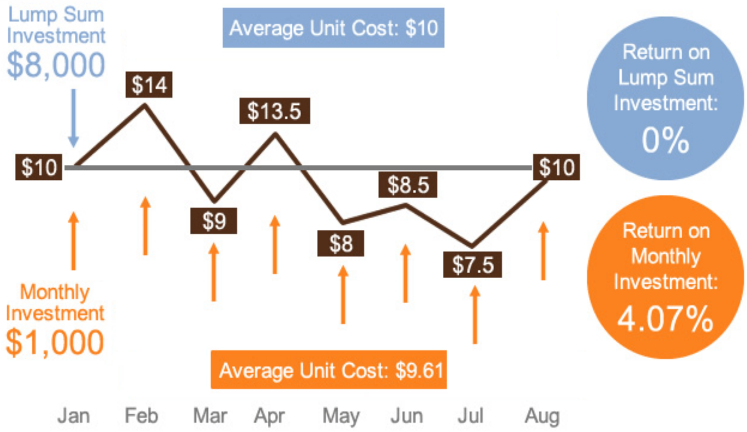
There are three main practices that can help you ensure the best diversification:

- *Spread your portfolio among multiple investment vehicles* such as cash, stocks, bonds, mutual funds and perhaps even some real estate.

- *Vary the risk in your securities:* You're not restricted to choosing only major company stocks. In fact, it would be wise to pick investments with varying risk levels; this will ensure that large losses are offset by other areas.
- *Vary your securities by industry:* This will *minimise* the impact of industry-specific risks.

Diversification is the strategy of investing in a variety of securities in order to lower the risk involved with putting money into few investments.
Diversification is a powerful component in helping you reach your long-range financial goals while minimising your risk. At the same time, diversification is **not** a guarantee against a loss. No matter how much diversification you employ, investing involves taking on some risk.

Dollar Cost Averaging (DCA)
If you ask any professional investor what the hardest investment task is, he or she will likely tell you that it is picking bottoms and tops in the market. Trying to time the market is a very tricky strategy. Buying at the absolute low and selling at the peak is nearly impossible in practice. This is why so many professionals preach about *Dollar Cost Averaging (DCA).*
Although the term might imply a complex concept, DCA is actually a fairly simple and extremely useful technique. Dollar cost averaging is the process of buying, regardless of the share price, a fixed dollar amount of a particular investment on a regular schedule. More shares are purchased when prices are low, and fewer shares are purchased when prices are high. The cost per share over time eventually averages out. This reduces the risk of investing a large amount in a single investment at the wrong time.



Let's analyse this with an example. Suppose you recently got a bonus for your hard work, and now you have $8,000 to invest. Instead of investing the lump sum into a mutual fund or stock, with DCA, you'd spread the investment out over several months. Investing $1,000 a month for the next eight months, "averages" the price over eight months. So one month you might buy high, and the next month you might buy more shares because the price is lower, and so on.
This plan is also applicable to the investor who doesn't have that big lump sum at the start but can invest small amounts regularly. This way you can contribute as little as $25-50 a month to an investment like an index fund. Keep in mind that dollar cost averaging doesn't prevent a loss in a steadily declining market, but it is quite effective in taking advantage of growth over the long term.
There are a few things investors should understand before starting their own dollar cost averaging plan:

- Dollar cost averaging is a strategy that is better suited for investors with a lower risk tolerance and a long-term investment horizon.

- Next, the strategy is no guarantee of good returns on your investment. Dollar cost averaging into an investment that continues to fall each and every month is not a wise move.
- Finally, investing involves risk and your own due diligence, so you should only dollar cost average into an investment that you understand and are comfortable with.

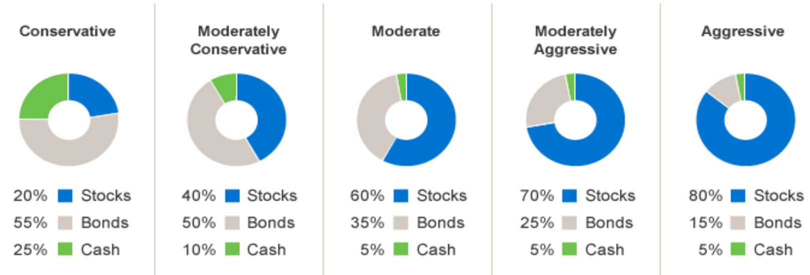
Asset Allocation

It's no secret that throughout history common stock has outperformed most financial instruments. If an investor plans to have an investment for a long period of time, his or her portfolio should be comprised mostly of stocks. Investors who don't have this kind of time should diversify their portfolios by including investments other than stocks.

For this reason, the concept of *asset allocation* was developed. Asset allocation is an investment portfolio technique that aims to balance risk and create diversification by dividing assets among major categories such as bonds, stocks, real estate, and cash. Each asset class has different levels of return and risk, so each will behave differently over time. At the same time that one asset is increasing in value, another may be decreasing or not increasing as much.

The underlying principle of asset allocation is that the older a person gets, the less risk he or she should take on. After you retire, you may have to depend on your savings as your only source of income. It follows that you should invest more conservatively because asset preservation is crucial at this time in life.

Examples of different investor profiles by asset allocation:



Determining the proper mix of investments in your portfolio is extremely important. Deciding what percentage of your portfolio you should put into stocks, mutual funds, and low-risk instruments like bonds and treasuries isn't simple, particularly for those reaching retirement age.

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon.

Market Investing Theories

In this chapter, we will discuss three essential market investing theories: the Random Walk Theory developed by Maurice Kendall and Burton Malkiel, the Efficient Market Hypothesis formulated by Eugene Fama, and the Optimal Portfolio Concept originated by Harry Markowitz.

Random Walk Theory

Random Walk Theory gained popularity in 1973 when Burton Malkiel wrote "A Random Walk Down Wall Street", a book that is now regarded as an investment classic. Random walk is a stock market theory that states that the past movement or direction of the price of a stock or overall market cannot be used to predict its future movement. Originally examined by Maurice Kendall in 1953, the theory states that stock price fluctuations are independent of each other and have the same probability distribution, but that over a period of time, prices maintain an upward trend.

In short, random walk says that stocks take a random and unpredictable path. The chance of a stock's future price going up is the same as it going down. A follower of random walk believes it is impossible to outperform the market without assuming additional risk. In his book, Malkiel preaches that both technical analysis and fundamental analysis are largely a waste of time and are still unproven in outperforming the markets.

Malkiel constantly states that a long-term buy-and-hold strategy is the best and that individuals should not attempt to time the markets. Attempts based on technical, fundamental, or any other analysis are futile. He backs this up with statistics showing that most mutual funds fail to beat benchmark averages like the S&P 500.

Random Walk Theory is the idea that stocks take a random and unpredictable path.

While many still follow the preaching of Malkiel, others believe that the investing landscape is very different than it was when Malkiel wrote his book in the 1970s. Today, everyone has easy and fast access to relevant news and stock quotes. Investing is no longer a game for the privileged. Random walk has never been a popular concept

with those on Wall Street, probably because it condemns the concepts on which it is based such as analysis and stock picking.
It's hard to say how much truth there is to this theory; there is evidence that supports both sides of the debate. However, it is an important theory every investor should know.

Efficient Market Hypothesis
Efficient Market Hypothesis (EMH) is an idea partly developed in the 1960s by Eugene Fama. It states that it is impossible to beat the market because prices already incorporate and reflect all relevant information. This is also a highly controversial and often disputed theory. Supporters of this model believe it is pointless to search for undervalued stocks or try to predict trends in the market through fundamental analysis or technical analysis.
Under the efficient market hypothesis, any time you buy and sell securities, you're engaging in a game of chance, not skill. If markets are efficient and current, it means that prices always reflect all information, so there's no way you'll ever be able to buy a stock at a bargain price.
The Efficient Market Hypothesis states that prices fully reflect all available information and it is impossible to beat the market on a risk-adjusted basis.
This theory has been met with a lot of opposition, especially from technical analysts. Their argument against the efficient market theory is that many investors base their expectations on past prices, past earnings, track records and other indicators. Because stock prices are largely based on investor expectation, many believe it only makes sense to believe that past prices influence future prices.

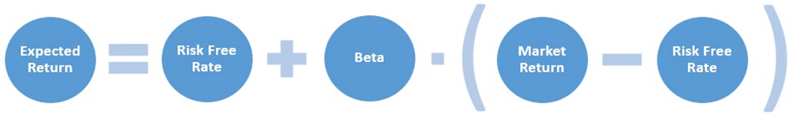
Optimal Portfolio Concept
The *Optimal Portfolio* concept falls under the modern portfolio theory. The theory assumes that investors fanatically try to minimise risk while striving for the highest return possible. The theory states that investors will act rationally, always making decisions aimed at maximising their return for their acceptable level of risk.
The optimal portfolio was used in 1952 by Harry Markowitz, and it shows us that it is possible for different portfolios to have varying levels of risk and return. Each investor must decide how much risk they can handle and then allocate (or diversify) their portfolio according to this decision.
The chart below illustrates how the optimal portfolio works. The optimal-risk portfolio is usually determined to be somewhere in the middle of the curve because as you go higher up the curve, you take on proportionately more risk for a lower incremental return. On the other end, low risk/low return portfolios are pointless because you can achieve a similar return by investing in risk-free assets, like government securities.

You can choose how much volatility you are willing to bear in your portfolio by picking any other point that falls on the efficient frontier. This will give you the maximum return for the amount of risk you wish to accept. Optimising your portfolio is not something you can calculate in your head. There are computer programs that are dedicated to determining optimal portfolios by estimating hundreds (and sometimes thousands) of different expected returns for each given amount of risk.

The Optimal Portfolio concept assumes that investors try to minimise risk while striving for the highest return possible.

Capital Asset Pricing Model (CAPM)
The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets, particularly stocks. CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital.

Definition
The Capital Asset Pricing Model (CAPM) was developed in 1952 by Harry Markowitz and fine-tuned over a decade later by other economists and investors, including William Sharpe. CAPM describes the *relationship between an investor's risk and the expected return*. It is designed to help model the pricing of higher-risk securities.



According to the CAPM theory, the expected return of a particular security or a portfolio is equal to the rate on a risk-free security plus a risk premium. If the security or portfolio does not either meet or exceed the required return, then the investment should not be entered into.
CAPM uses the following formula:

- *Expected return*: The expected return of a capital asset over time, given all of the other variables in the equation. "Expected return" is a long-term assumption about how an investment will play out over its entire life.
- *Risk-free rate*: The the risk-free rate is typically equal to the yield on a 10-year US government bond. The risk-free rate should correspond to the country where the investment is being made, and the maturity of the bond should match the time horizon of the investment. The professional convention, however, is to typically use the 10-year rate no matter what, because it's the most heavily quoted and most liquid bond.
- *Beta:* The beta is a measure of a stock's risk (volatility of returns) reflected by measuring the fluctuation of its price changes relative to the overall market. In other words, it is the stock's sensitivity to market risk. For instance, if a company's beta is equal to 1.5 the security has 150% of the volatility of the market average. However, if the beta is equal to 1, the expected return on a security is equal to the average market return. A beta of -1 means security has a perfect negative correlation with the market.
- *Market return premium (market return – risk-free rate)*: From the above components of CAPM, we can simplify the formula to reduce "expected return of the market minus the risk-free rate" to be simply the "market risk premium". The market risk premium represents the additional return over and above the risk-free rate, which is required to compensate investors for investing in a riskier asset class. Put another way, the more volatile a market or an asset class is, the higher the market risk premium will be.

Example
In order to properly understand the CAPM equation, let's take a look an example:
We assume that the current risk-free rate is 5%, and the American stock market index S&P 500 is expected to bring in returns of 12% over the next year. You are interested in evaluating the return that Joe's Oyster Bar, Inc. (JOB) will have over the same time period (expected return). You have determined that the stock's Beta value is 1.9, and the overall stock market has a beta of 1.0. This means that JOB carries a higher level of risk than the overall stock market. Because of this extra risk, we should expect a higher potential return than the market's 12% anticipated return. We can calculate the expected return of JOB as follows:
Expected Return = Risk-Free Rate + Beta * (Market Return – Risk-Free Rate)
Expected Return = 5% + 1.9 * (12% – 5%)
Expected Return = 18.3%
CAPM tells us that Joe's Oyster Bar has a required rate of return of 18.3%. An investor who buys JOB stock should be getting at least 18.3% in return on his or her investment. If you have reason to believe that JOB will not be able to produce those returns for you over the specified time period, then it's best to invest your funds elsewhere.
One important add-on to the CAPM theory is that high-beta shares typically provide the highest returns. Over a longer period of time, though, high-beta shares tend to be the worst performers during bear markets (a period marked with falling stock prices). Thus, while you may receive high returns from high-beta shares in a given window of time, there is no guarantee that the CAPM return will be realised.

Advantages and Limitations
CAPM is most often used to determine what the fair price of an investment should be. When you calculate the risky asset's rate of return using CAPM, that rate can then be used to discount the investment's future cash flows to their present value and thus arrive at the investment's fair value.
There are assumptions behind the CAPM formula that have been shown not to hold in reality:

- First, the model assumes that a riskier asset will yield a higher return. But this is not necessarily true. A risky asset could decline in value.
- Second, historical data determines beta. The model assumes this historical data an accurate predictor of future results. But the asset's future volatility may not necessarily reflect its past volatility.

Considering the critiques of the CAPM and the assumptions behind its use in portfolio construction, it might be difficult to see how it could be useful. However, the underlying concepts of CAPM can help investors understand the relationship between expected risk and reward as they make better decisions about adding securities to a portfolio.

Despite the aforementioned drawbacks, there are numerous advantages to the application of CAPM, the most important one being its easy-of-use. CAPM is a simplistic calculation that can be easily stress-tested to derive a range of possible outcomes to provide confidence around the required rates of return.

No model is perfect, but each should have a few characteristics that make it useful and applicable. CAPM, while criticised for its unrealistic assumptions, provides a more useful outcome than most other financial models. It is easily calculated and stress-tested, and when used in conjunction with other aspects of an investment mosaic, it can provide unparalleled yield data that can support or eliminate a potential investment.

Conclusion

The world of investing and finance can be a chaotic and confusing place. We hope that this course has given you some basic knowledge about investing in financial markets and about different investment strategies suitable to your risk profile. Let's recap what we've learned in this course:

- *Risk-Return Tradeoff* is the balance between the desire for the lowest possible risk and the highest possible return. Higher risk equals greater possible return.
- Diversification lowers the risk of your portfolio.
- *Dollar cost averaging (DCA)* is a technique by which, regardless of the share price, a fixed dollar amount is invested on a regular schedule.
- *Asset allocation* divides assets among major categories in order to create diversification and balance the risk.

Also, we introduced three of the most important market investing theories and the widely used capital asset pricing model (CAPM):

- The *Random Walk Theory* says that stocks take a random and unpredictable path.
- The *Efficient Market Hypothesis (EMH)* says it is impossible to beat the market because prices already incorporate and reflect all relevant information.
- The *Optimal Portfolio Concept* attempts to show how rational investors will maximise their returns for the level of risk that is acceptable to them.
- The *Capital Asset Pricing Model (CAPM)* describes the relationship between risk and expected return and serves as a model for the pricing of risky securities.

FINANCIAL PERFORMANCE

Introduction

Welcome to Financial Performance!

The ability to evaluate the financial position of a business is a valuable skill for any manager to have – whether you are choosing a supplier or considering a strategic partnership with a company.

Many organisations can appear successful despite deep structural problems with the way they are financed and managed. Just think for a moment about the consequences of working with a supplier or partner organisation who goes bust, or who, despite appearing credible, never seems able to deliver on their promises because of hidden financial problems within their own organisation.

Very few managers take the time and trouble to learn how to make a simple financial assessment of another organisation, even though doing so is straightforward and the necessary information can usually be obtained online either free of charge or for only a few dollars.

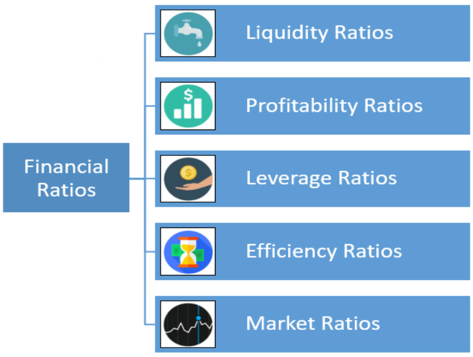
This course explains the tools used to assess the financial performance of an organisation. These are known as *'key financial ratios'* and they help you interpret financial information in a way that can aid you in making the right decisions when choosing who to work with or sell to. This information can also give you a valuable insight into how well an organisation is managed at the highest level.

A key financial ratio is calculated by comparing certain values taken from an organisation's *financial statements,* including the income statement, balance sheet, and cash flow statement. Before you can fully understand financial ratios you must have a clear and accurate appreciation of how each of these statements is derived and what it can tell you. If you are not already familiar with these statements we recommend to run our "*Accounting Principles*" course first.

Types of Financial Ratios

Ratio analysis is a tool that was developed to perform quantitative analysis on numbers found on financial statements. Ratios help link different financial statements together and offer figures that are comparable between companies and across industries and sectors.

Ratio analysis is one of the most widely used fundamental analysis techniques. Generally speaking, these ratios can be grouped into five different categories. In the following chapters, we will discuss each ratio in detail:



- *Liquidity Ratios* measure a company's ability to pay off its short-term debt obligations
- *Profitability Ratios* show a company's ability to generate profits from its operations
- *Solvency Ratios* quantify the firm's ability to repay long-term debt
- *Efficiency Ratios* measure the effectiveness of the firm's use of resources
- *Market Ratios* estimate the attractiveness of a potential or existing investment

Financial ratios are not useful unless they are *benchmarked* against something else, for example past performance or another organisation in the same business area. Whilst you can compare the ratios of organisations in different industries, this is usually of limited value because of differences in market conditions, capital requirements, and competition. However, comparing ratios for potential suppliers, partners, acquisitions, or competitors can provide you with useful data to help with decision making.

Key financial ratios allow for useful comparisons between:

- Organisations in the same industry sector
- Different time periods for the same organisation
- An organisation and its industry average

Liquidity
Liquidity Ratios evaluate a firm's ability to meet its short-term financial obligations. If it does not have enough short-term assets to cover short-term obligations, or if it does not generate enough cash flow to cover costs, it may face problems. Here are the two most common liquidity ratios:

Current Ratio
The *Current Ratio* measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year.
This means that a company has a limited amount of time in order to raise the funds to pay for these liabilities. Current assets like cash, cash equivalents, and marketable securities can easily be converted into cash in the short term. This means that companies with larger amounts of current assets will more easily be able to pay off current liabilities when they become due without having to sell off long-term, revenue-generating assets.
The current ratio is calculated by dividing current assets by current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio helps investors and creditors understand the liquidity of a company and how easily that company will be able to pay off its current liabilities. This ratio expresses a firm's current debt in terms of current assets. So a current ratio of 4 would mean that the company has 4 times more current assets than current liabilities.
A higher current ratio is always more favourable than a lower current ratio because it shows the company can more easily make current debt payments.

Example:
Alberto's Pizzeria is applying for loans to build a large terrace. Alberto's bank asks for the balance sheet so they can analysis the pizzeria's current debt levels. According to Alberto's balance sheet, the pizzeria reported $100,000 of current liabilities and only $25,000 of current assets. Alberto's current ratio would be calculated like this:
$25,000 / $100,000 = 0.25
As you can see, the pizzeria only has enough current assets to pay off 25 percent of its current liabilities. This shows that Alberto's Pizzeria is highly leveraged and highly risky. Banks would prefer a current ratio of at least 1 or 2, so that all the current liabilities would be covered by the current assets. Since the pizzeria's ratio is so low, it is unlikely that it will get approved for the loan.

Quick Ratio
The *Quick Ratio* or Acid Test Ratio measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short-term. Cash, cash equivalents, short-term investments or marketable securities, and current accounts receivable are considered *quick assets*.
The acid test of finance shows how well a company can quickly convert its assets into cash in order to pay off its current liabilities. It also shows the level of quick assets to current liabilities.
The quick ratio is calculated by dividing quick assets (cash, cash equivalents, short-term investments, and current receivables) by current liabilities:

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Higher quick ratios are more favourable for companies because it shows there are more quick assets than current liabilities. A company with a quick ratio of 1 indicates that quick assets equal current assets. This also shows that the company could pay off its current liabilities without selling any long-term assets. An acid ratio of 2 shows that the company has twice as many quick assets than current liabilities.
Obviously, as the ratio increases so does the liquidity of the company. More assets will be easily converted into cash if need be. This is a good sign for investors, but an even better sign to creditors because creditors want to know they will be paid back on time.

Example:
Let's assume Jim's Clothing Store is applying for a loan to remodel the storefront. The bank asks Jim for a detailed balance sheet, so it can compute the quick ratio. Jim's balance sheet included cash of $10,000, accounts receivable of $5,000, stock investments of $1,000, and current liabilities of $15,000.
The bank can compute Jim's quick ratio like this:
($10,000 + $5,000 + $1,000) / $15,000 = 1.07

As you can see Jim's quick ratio is 1.07. This means that Jim can pay off all of his current liabilities with quick assets and still have some quick assets left over.

Profitability

Profitability Ratios are financial metrics that are used to assess a business's ability to generate profit. Profitability ratios focus on a company's return on investment in inventory and other assets. Here are four of the key ratios that investors consider when judging how profitable a company should be:

Profit Margin

The *Profit Margin Ratio*, also called the Return on Sales Ratio, compares the earnings reported by a business to its sales. It is a key indicator of the financial health of an organisation.

Creditors and investors use this ratio to measure how well a company can convert sales into net income. Investors want to make sure profits are high enough to distribute dividends while creditors want to make sure the company has enough profits to pay back its loans. An extremely low-profit margin formula would indicate the expenses are too high and the management needs to budget and cut expenses.

$$\text{Profit Margin Ratio} = \frac{\text{Net Income}}{\text{Net Sales}}$$

The profit margin ratio formula can be calculated by dividing net income by net sales:

The profit margin ratio directly measures what percentage of sales is made up of net income. In other words, it measures how much profits are produced at a certain level of sales.

This ratio also indirectly measures how well a company manages its expenses relative to its net sales. That is why companies strive to achieve higher ratios. They can do this by either generating more revenues why keeping expenses constant or keep revenues constant and lower expenses. Since most of the time generating additional revenues is much more difficult than cutting expenses, managers generally tend to reduce spending budgets to improve their profit ratio.

Example:

Peter's Fishing Shop is an outdoor fishing store that selling lures and other fishing gear to the public. Last year Peter had the best year in sales he has ever had since she opened the business 10 years ago. Last year Peter's net sales were $1,000,000 and his net income was $100,000.

Here is Peter's Profit Margin Ratio:

$100,000 / $1,000,000 = 10%

As you can see, Peter only converted 10 percent of his sales into profits. Contrast that with this year's numbers of $800,000 of net sales and $200,000 of net income:

$200,000 / $800,000 = 25%

This year Peter may have made fewer sales, but he cut expenses and was able to convert more of these sales into profits with a ratio of 25 percent.

Return on Assets (ROA)

The *Return on Assets Ratio (ROA)* compares the net earnings of a business to its total assets. In other words, the Return on Assets Ratio measures how well a company can manage its assets to produce profits during a period.

Since company assets' sole purpose is to generate revenues and produce profits, this ratio helps both management and investors see how well the company can convert its investments in assets into profits. In short, this ratio measures how profitable a company's assets are.

The return on assets ratio formula is calculated by dividing net income by average total assets:

$$\text{Return on Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

The return on assets ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits.

A positive ROA ratio usually indicates an upward profit trend as well. ROA is most useful for comparing companies in the same industry as different industries use assets differently. For instance, construction companies use large, expensive equipment while software companies use computers and servers.

Example:
Charlie's Construction Company is a growing construction business that has a few contracts to build storefronts in downtown Chicago. Charlie's balance sheet shows total assets of $2,000,000. During the current year, Charlie's company had a net income of $200,000. Charlie's return on assets ratio looks like this:
$200,000 / $2,000,000 = 10%
As you can see, Charlie's ratio is 10 percent. In other words, every dollar that Charlie invested in assets during the year produced $10 of net income. Depending on the economy, this can be a healthy return rate no matter what the investment is.
Investors would have to compare Charlie's return with other construction companies in his industry to get a true understanding of how well Charlie is managing his assets.

Return on Equity (ROE)
The *Return on Equity Ratio (ROE)* measures the ability of a firm to generate profits from its shareholders' investments in the company. In other words, the return on equity ratio shows how much profit each dollar of common stockholders' equity generates.
This is an important measurement for potential investors because they want to see how efficiently a company will use its money to generate net income. ROE is also an indicator of how well management is at using equity financing to fund operations and grow the company.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

To calculate the return on equity, simply divide net income by shareholder's equity. The formula is:
ROE is a profitability ratio from the investor's point of view—not the company. In other words, this ratio calculates how much money is made based on the investors' investment in the company, not the company's investment in assets or something else.
That being said, investors want to see a high return on equity ratio because this indicates that the company is using its investors' funds effectively. Higher ratios are almost always better than lower ratios but have to be compared to other companies' ratios in the industry. Since every industry has different levels of investors and income, ROE can't be used to compare companies outside of their industries very effectively.
Many investors also choose to calculate the return on equity at the beginning of a period and the end of a period to see the change in return. This helps track a company's progress and ability to maintain a positive earnings trend.

Example:
Toms Tool Company is a retail store that sells tools to construction companies across the country. Tom reported net income of $100,000. Tom also had $50,000 common shares outstanding during the year. Tom would calculate her return on common equity like this:
$100,000 / $50,000 = 2
As you can see, Tom's ROE is 2. This means that every dollar of common shareholder's equity earned about $2 this year. In other words, shareholders saw a 200 percent return on their investment. Tom's ratio is most likely considered high for his industry. An average of 5 to 10 years of ROE ratios will give investors a better picture of the growth of this company.

Return on Investment (ROI)
Return on investment (ROI) calculates the profits of an investment as a percentage of the original cost. In other words, it measures how much money was made on the investment as a percentage of the purchase price. It shows investors how efficiently each dollar invested in a project is at producing a profit.
The ROI calculation is one of the most common investment ratios because it's simple and extremely versatile. Managers can use it to compare performance rates on capital equipment purchases while investors can calculate what stock purchases performed better.
The return on investment formula is calculated by subtracting the cost from the total income and dividing it by the total cost:

$$\text{Return on Investment} = \frac{(\text{Investment Revenue - Investment Cost})}{\text{Investment Cost}}$$

Generally, any positive ROI is considered a good return. This means that the total cost of the investment was recouped in addition to some profits left over. A negative return on investment means that the revenues weren't even enough to cover the total costs. That being said, higher return rates are always better than lower return rates.

Example:
Let's look at Richard's Brokerage House for example. Richard is a stockbroker who specialises in penny stocks. Richard made a somewhat risky investment in a liquid metals stock last year when he purchased 8,000 shares at $1 per share. Today, a year later, the fair market value per share is $3.50. Richard sells the share and uses an ROI calculator to measure his performance.
($28,000 – $8,000) / $8,000 = 2.5
As you can see, Richard's return on investment is 2.5. This means that Richard made $2.50 for every dollar that he invested in the liquid metals company. This investment was extremely efficient because it increased by 250%.

Leverage
Leverage Ratios, also called Solvency Ratios or Debt Ratios, measure a company's ability to sustain operations indefinitely by comparing debt levels with equity, assets, and earnings. Leverage ratios focus more on the long-term sustainability of a company. The two most important solvency ratios are:

Debt Ratio
The *Debt Ratio* measures the proportion of assets paid for with debt. One can use the ratio to reach conclusions about the solvency of a business. A high ratio implies that the bulk of company financing is coming from debt; this is a risky financial structure since the borrower is at risk of not being able to pay for the associated interest expense or paying back the principal. A low debt ratio reflects a conservative financing strategy of using only equity to pay for assets.
The debt ratio is calculated as total liabilities divided by total assets. The formula is:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Lenders and creditors use the debt ratio to estimate the amount of lending risk they will incur by extending credit to an organisation. They are more likely to lend when the debt ratio is closer to 0% than when the ratio is closer to 100% (or more).

Example:
Jim's Guitar Shop is thinking about building an addition onto the back of its existing building for more storage. Jim consults with his banker about applying for a new loan. The bank asks for Jim's balance to examine his overall debt levels. The banker discovers that Jim has total assets of $100,000 and total liabilities of $25,000. Jim's debt ratio would be calculated like this:
$25,000 / $100,000 = 0.25
As you can see, Jim only has a debt ratio of 0.25. In other words, Jim has 4 times as many assets as he has liabilities. This is a relatively low ratio and implies that Jim will be able to pay back his loan. Jim shouldn't have a problem getting approved for his loan.

Debt to Equity Ratio
The *Debt to Equity Ratio* compares a company's total liabilities to total equity. It shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).
The debt to equity ratio is calculated by dividing total liabilities by total equity:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Each industry has a different debt to equity ratio benchmarks, as some industries tend to use more debt financing than others. A debt ratio of 0.5 means that there are half as many liabilities than there is equity. In other words, the assets of the company are funded 2-to-1 by investors to creditors. A debt to equity ratio of 1 would mean that investors and creditors have an equal stake in the business assets.
A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered riskier to creditors and investors than companies with a lower ratio. Unlike equity financing, a debt must be repaid to the lender. Since debt financing also requires debt servicing or regular interest payments, debt can be a far more expensive form of financing than equity financing. Companies leveraging large amounts of debt might not be able to make the payments.

Example:
Assume a company has $300,000 of bank lines of credit. The shareholders of the company have invested $1.2 million. Here is how you calculate the debt to equity ratio:
$300,000 / $1,200,000 = 0.25

Creditors view a higher debt to equity ratio as risky because it shows that the investors haven't funded the operations as much as creditors have. This could mean that investors don't want to fund business operations because the company isn't performing well.

Efficiency

Efficiency Ratios, also called Activity Ratios, measure how well companies use their assets to generate income. Efficiency ratios often look at the time it takes companies to collect cash from clients or the time it takes companies to convert inventory into cash. Here are the two most common efficiency ratios:

Asset Turnover Ratio

The *Asset Turnover Ratio* compares the sales of a business to the book value of its assets. In other words, this ratio shows how efficiently a company can use its assets to generate sales. A high turnover level indicates that an entity uses a minimal amount of working capital and fixed assets in its daily operations.

The asset turnover ratio gives investors and creditors an idea of how a company is managed and uses its assets to produce products and sales.

To calculate the asset turnover ratio, divide sales by total average assets:

$$\text{Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Total Average Assets}}$$

This ratio measures how efficiently a firm uses its assets to generate sales, so a higher ratio is always more favourable. Higher turnover ratios mean the company is using its assets more efficiently. Lower ratios mean that the company isn't using its assets efficiently and most likely have management or production problems.

For instance, a ratio of 1 means that the net sales of a company equal the average total assets for the year. In other words, the company is generating 1 dollar of sales for every dollar invested in assets.

Like with most ratios, the asset turnover ratio is based on industry standards. Some industries use assets more efficiently than others. To get a true sense of how well a company's assets are being used, it must be compared to other companies in its industry.

Example:

Sally's Tech Company is a tech start-up company that manufactures a new tablet computer. Sally is currently looking for new investors and has a meeting with an angel investor. The investor wants to know how well Sally uses her assets to produce sales, so he asks for her financial statements. The financial statements reports sales of $20,000 and total average assets of $80,000.

The total asset turnover ratio is calculated like this:

$20,000 / $80,000 = 0.25

As you can see, Sally's ratio is only 0.25. This means that for every dollar in assets, Sally only generates 25 cents. In other words, Sally's start-up in not very efficient with its use of assets.

Inventory Turnover Ratio

The *Inventory Turnover Ratio* shows how effectively inventory is managed by comparing the cost of goods sold with the average inventory for a period. This measures how many times the average inventory is "turned" or sold during a period. In other words, it measures how many times a company sold its total average inventory dollar amount during the year. A company with $1,000 of average inventory and sales of $10,000 effectively sold its 10 times over.

To calculate inventory turnover, divide the ending inventory figure into the annualised cost of sales:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

When there is a low rate of inventory turnover, this implies that a business may have a flawed purchasing system that bought too many goods, or that stocks were increased in anticipation of sales that did not occur. In both cases, there is a high risk of inventory age, in which case it becomes obsolete and has little residual value.

When there is a high rate of inventory turnover, this implies that the purchasing function is tightly managed. However, it may mean that a business does not have the cash reserves to maintain normal inventory levels, and so is turning away prospective sales. The latter scenario is most likely when the amount of debt is unusually high and there are few cash reserves.

Example:

Donny's Furniture Company sells industrial furniture for office buildings. During the current year, Donny reported cost of goods sold on its income statement of $1,000,000. Donny's inventory was $4,000,000. Donny's turnover is calculated like this:

$1,000,000 / $4,000,000 = 0.25
As you can see, Donny's turnover is 0.25. This means that Donny only sold a quarter of its inventory during the year. It also implies that it would take Donny approximately 4 years to sell his entire inventory or complete one turn. In other words, Danny does not have very good inventory control.

Market
Market Ratios are used to analyse stock price trends and help figure out a stock's current and future market value. In other words, market ratios show what investors should expect to receive from their investment. Here are the most important market ratios that investors tend to analyse:

Earnings per Share (EPS)
The *Earnings per Share Ratio* (EPS Ratio) measures the amount of a company's net income that is theoretically available for payment to the holders of its common stock. A company with a high earnings per share ratio is capable of generating a significant dividend for investors, or it may plow the funds back into its business for more growth; in either case, a high ratio indicates a potentially worthwhile investment, depending on the market price of the stock.
To calculate the ratio, subtract any dividend payments due to the holders of preferred stock from net income, and divide by the average number of common shares outstanding during the measurement period. The calculation is:

$$\text{Earnings per Share} = \frac{(\text{Net Income} - \text{Preferred Dividends})}{\text{Number of Common Shares Outstanding}}$$

It is very worthwhile to track a company's earnings per share ratio on a trend line. If the trend is positive, then the company is either generating an increasing amount of earnings or buying back its stock. Conversely, a declining trend can signal to investors that a company is in trouble, which can lead to a decline in the stock price.

Example:
ABC Company has a net income of $1,000,000 and also must pay out $200,000 in preferred dividends. It has both bought back and sold its own stock during the measurement period; the weighted average number of common shares outstanding during the period was 400,000 shares. ABC's earnings per share ratio is:
($1,000,000 – $200,000) / 400,000 = $2.00 per share

As you can see, the EPS for the year is $2. This means that if ABC Company distributed every dollar of income to its shareholders, each share would receive 2 dollars.

Price to Earnings Ratio
The *Price to Earnings Ratio (P/E Ratio)* calculates the market value of a stock relative to its earnings by comparing the market price per share by the earnings per share. In other words, the price-earnings ratio shows what the market is willing to pay for a stock based on its current earnings.

The P/E Ratio helps investors analyse how much they should pay for a stock based on its current earnings. Companies with higher future earnings are usually expected to issue higher dividends or have appreciating stock in the future.
The price-earnings ratio formula is calculated by dividing the market value price per share by the earnings per share:

$$\text{Price to Earnings Ratio} = \frac{\text{Current Market Price per Share}}{\text{Earnings per Share}}$$

A company with a high P/E ratio usually indicated positive future performance and investors are willing to pay more for this company's shares. A company with a lower ratio, on the other hand, is usually an indication of poor current and future performance.

Example:
The Island Corporation stock is currently trading at $50 a share and its earnings per share for the year is 5 dollars. Island's P/E ratio would be calculated like this:
$50 / $5 = 10

As you can see, the Island's ratio is 10. This means that investors are willing to pay 10 dollars for every dollar of earnings.

Dividend Yield
The *Dividend Yield Ratio* shows the number of dividends that a company pays to its investors in comparison to the market price of its stock. Thus, the dividend yield ratio is the return on investment to an investor if the investor were to have bought the stock at the market price on the measurement date.
To calculate the ratio, divide the annual dividends paid per share of stock by the market price of the stock at the end of the measurement period. The basic calculation is:

$$\text{Dividend Yield Ratio} = \frac{\text{Cash Dividends per Share}}{\text{Market Value per Share}}$$

Investors use the dividend yield formula to compute the cash flow they are getting from their investment in stocks. In other words, investors want to know how much dividends they are getting for every dollar that the stock is worth.
A company with a high dividend yield pays its investors a large dividend compared to the fair market value of the stock. This means the investors are getting highly compensated for their investments compared with lower dividend-yielding stocks.

Example:
Stacy's Bakery is an upscale bakery that sells cupcakes and baked goods in Beverly Hills. Stacy's is listed on a smaller stock exchange and the current market price per share is $15. As of last year, Stacy paid $15,000 in dividends with 1,000 shares outstanding. Stacy's yield is computed like this:
$15 / $15 = 1
As you can see, Stacy's yield is one dollar. This means that Stacy's investors receive 1 dollar in dividends for every dollar they have invested in the company. In other words, the investors are getting a 100 percent return on their investment every year Stacy maintains this dividend level.

Conclusion
The more you know about how an organisation is performing financially, the easier it will be for you to make informed management decisions about it. Financial ratios can be a great tool in your analysis toolbox as a manager or investor to evaluate the strength, profitability, and quality of a business.
Key financial ratios can help you to find out:
- Is an organisation solvent?
- Is it profitable?
- How well is it managed?

Making a simple financial assessment of another organisation is straightforward and the necessary information is readily available. This means that you can compare the performance of the organisation with its previous track record and with the performance of other similar organisations. You can also make comparisons to see how profitable the business is, how efficiently it is performing, and whether it is able to pay its bills on time.
This ability to evaluate the financial position of another organisation is a valuable skill for any manager to have, whether you are choosing a supplier, considering a strategic partnership, or deciding how much credit to extend to a customer.
Remember, the ability to communicate in the language of finance becomes more of an asset the higher you progress up through the levels of management, even if accounting and finance is not your specialty.

INVESTMENT FUNDAMENTALS

Introduction
Welcome to Investment Fundamentals!
This course aims to demystify the process of investing and to give you a basic introduction. To get ready to invest you will need to reflect upon a number of fundamental things about both yourself and the world of investments.
In short, investing can be defined as the act of committing money or capital to an endeavour with the expectation of obtaining an additional income or profit. In even simpler words: investing means *putting your money to work for you.*
There are many different ways you can go about making an investment. This includes putting money into stocks, bonds, mutual funds, or real estate (among many other things), or starting your own business. Each of these vehicles has positives and negatives, but the goal is always to put your money to work so it earns you an additional profit. Even though this is a simple idea, it's the most important concept for you to understand.
This course takes you through:

- Getting ready to invest, including goal setting and understanding the impact of cost and risk
- The importance of asset allocation and the different asset classes
- The different types of investment management
- Looking after your investments over time

From taking this course you will understand the fundamentals of investing and the key steps needed to begin to work with your financial adviser to develop your investment plan. The most important rule: The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Prepare to Invest
If you don't have any experience investing on your own, getting started can be rather intimidating, confusing, and overwhelming. In this chapter, we will discuss some things all starting investors should keep in mind while getting ready to buy their first stock.

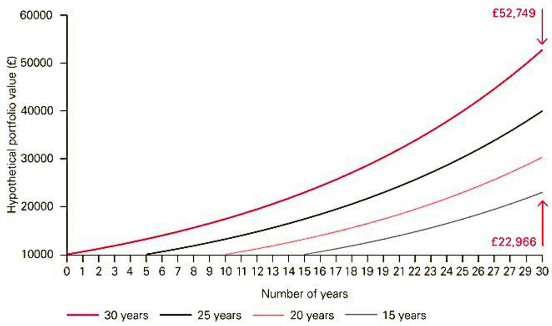
Saving and Investing
Saving for the deposit on a new car or next year's holiday is different from investing to achieve a long-term goal, such as building up a retirement pot or paying school fees.

Saving generally involves putting money into a bank account or money market fund that is relatively *safe* and pays a fixed, although typically low, rate of interest. However, a savings plan may not earn you wealth enhancing returns over the long term and taking into account the impact of inflation the real purchasing power of your money will likely decline.

Investing, on the other hand, can help you to both create and preserve your wealth. By taking an appropriate level of *risk* you may have the opportunity to earn potentially higher long-term returns. The value of investments may fall or rise and investors may get back less than they invested. Quite simply, you invest to create and preserve wealth.
Remember: saving and investing are two different concepts.
Becoming a successful investor requires both planning and discipline:

- *Planning* means thinking carefully about everything you need to consider when developing your investment plan. You have to define your goals, understand asset allocation, and look after your investments over time.
- *Discipline* means keeping market movements into perspective, recognising the potential impact of risk and regularly rebalancing your portfolio. It is also important to live within your means and decide how much you will set aside for investing before you start to develop your plan.

Compounding
People have different goals at different stages of their lives. For example, if you are retired, you may simply want to maximise the amount of income you receive. Whereas, your longer-term focus might be building financial security for you and your family. Whatever your goals and your time frame for investing, it is important to be realistic about what you can afford to invest and how best to manage your investments.
The old saying 'time is money' sums up precisely why it's so important to *invest for the long term.* That's because the effects of "compounding" the returns you receive from your investments over time can be significant. *Compounding* is the engine that powers long-term investment returns. It happens as you reinvest your returns, then reinvest the returns on those returns, and so on.
This chart illustrates the power of compounding over time:



This hypothetical graph shows the growth of a £10,000 initial investment over different time periods. For simplicity, the graph assumes a 6% annual income. It demonstrates that the longer you hold your investment while reinvesting your income, the bigger the potential impact. For example, over thirty years, the initial investment would have grown to £52,749 if all income had been reinvested. In comparison, over a fifteen-year period, the initial investment would only have grown to £22,996. As this is a hypothetical example it does not reflect any particular investment.
It is important to remember that forecasts are not a reliable indicator of future performance and the value of investments and the income from them may rise as well as fall.

Income or Growth
Investments can be divided into "income assets" and "growth assets". One of the key investment decisions you need to make during the planning stage is whether you require income, growth or a bit of both from your investments.

Income Assets:
These assets primarily provide returns in the form of income and include cash investments, rental of property, or ownership of a business. Income assets tend to provide more stable, but lower returns. If your primary need is for income, you may benefit from holding a higher proportion of income assets.

Growth Assets:
Growth assets are designed to grow your investment and include investments such as shares. They tend to carry higher levels of risk, yet have the potential to deliver higher returns over longer investment time frames. In general, growth assets are expected to provide returns in the form of capital growth. For example, as a shareholder, you may receive income in the form of a dividend on the shares you own. However, the majority of the return usually comes from changes in the value of the company over time, as determined by its share price.
Having decided whether you require more income or more growth from your investments, you can go on to working with your financial adviser to develop your investment plan.

Reducing Risk
A number of specific risks can affect your investments. As part of developing your investment plan, you should understand the potential risks. One of the ways to define risk is the likelihood that an investment's actual return will differ from expectations.
There are six different risk categories:

- *Country risk*: Political upheaval, financial troubles, or natural disasters can weaken a country's financial markets.
- *Currency risk*: The risk that changes in currency exchange rates cause the value of an investment to decline.

- *Inflation risk:* Inflation can erode the value or purchasing power of your investments.
- *Liquidity risk*: The chance that an investment may be difficult to buy or sell.
- *Market risk:* Market risk is the risk that investment returns will fluctuate across the market in which you are invested.
- *Short fall risk:* Short fall risk is a possibility that your portfolio will fail to meet your longer-term financial goals.

Spreading your money across a range of investments is one of the best ways to reduce risk and protect against sudden falls in any particular market, sector, or individual investment. With a **diversified portfolio** of investments, returns from better-performing investments can help offset those that underperform.
Diversification alone does not ensure you will make a profit, nor protect you fully against losses in a declining market. But it can reduce the risk of experiencing a serious loss of wealth as the result of being over-committed to a single investment.
You can spread your potential risk by investing in a mix of investments. That way, when some investments are underperforming, other investments can carry the load and help to even out the ups and downs in your portfolio.

Asset Allocation
Asset allocation is the rigorous implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

Equity
Equities, also sometimes called stocks or shares, represent ownership in a company. This ownership gives you the right to share in that company's future financial performance.
Of the major asset types equities, bonds, property, and cash, history has shown that equities have the highest potential to deliver strong returns over the long-term. That's why many people who invest for the long run make equities the biggest portion of their portfolios. But remember that equities can be volatile.
When a company is doing well, it may decide to pay out some of its profits by distributing dividends to shareholders. Or it might reinvest those profits in the business in the hope of increasing future sales – which, in turn, may increase the value of your shares. But if the company runs into trouble, the value of your holding could drop or even be wiped out. It is important to remember that the value of investments, and the income from them, may fall or rise and investors may get back less than they invested.
Many companies decide to make payments – called dividends – to their shareholders on a regular basis. The level of dividend payments is determined by both the company's earnings and its management strategy.
An equity investment is money invested in a company through the purchase of its shares. Equity investors purchase shares in the expectation that they will rise in value in the form of capital gains and/or generate capital dividends from the company.

Bonds
A *bond* is a loan made to the bond's issuer, which could be a company, a government, or some other institution.
Bonds can be useful in a portfolio as they provide income, typically paid twice a year. Bonds are issued for a set period and when that period expires – in other words when the bond reaches its maturity – the issuer will repay the face value of the bond. You may include bonds in your portfolio to help offset some of the volatility of equities.
As bonds typically offer regular payments of a fixed amount of interest, they are sometimes called *fixed interest investments*.
Bonds can be divided into two groups: government bonds and corporate bonds.

- *Government bonds*, also called gilts, are generally assumed to have a zero risk of default as they are backed by the government. The interest rate paid (or 'coupon') is therefore relatively low.
- Companies also issue bonds (called *corporate bonds*). These provide credit to help finance a variety of operations, as an alternative to issuing shares or borrowing from a bank. As you would expect, corporate bonds tend to be safer when issued by reputable companies and riskier when issued by weak companies. Typically, financially stronger companies issue bonds that pay less interest than those offered by financially weaker companies.

For example, a start-up biotechnology firm might issue a five-year bond which pays a high rate of interest because it is deemed to be more risky. It has to pay this rate of interest in order to persuade investors to take on the higher risk involved. Bonds like these are therefore called 'high yield bonds' and are sometimes called 'junk bonds'. However, a large stable FTSE 100 company making solid long-term profits might pay a substantially lower rate of interest because it is perceived as being relatively safe. These are often referred to as 'investment grade bonds'.

Credit rating agencies, such as Standard & Poor's or Moody's, rate bond issuers according to their credit-worthiness, in the same way that individuals are given a credit score by banks. These ratings can be a useful starting point for understanding the credit-worthiness of a bond.

Property

For most people, their major investment in *property* will be owning their own home. As home ownership represents a significant proportion of an investors' wealth, many people will decide that this gives them a high enough proportion of property in their portfolio.

However, for investors who want to increase their exposure to property, it is possible to diversify into commercial property. This can be done through specialist property funds which are run by professional managers (in the same way as equity or bond funds).

These funds may invest within a single country or internationally, in a variety of different types of property, such as office space, retail outlets or industrial property. These funds earn returns from both rents on the property they own and potential gains in the value of that property.

Where and what you buy will affect your return on investment significantly. Here are some tips to help you identify a good investment property:

- Familiar markets: Consider buying an investment property in an area you are familiar with as it will take you less time to research. Check recent sale prices in the area to give you an idea of what you can expect to pay for local properties.
- Growth suburbs: Look for areas where high growth is expected, where there is potential for capital gains.
- Rental yield: Look for areas where rents are high compared to the property value.
- Low vacancy rates: Find out about the vacancy rates in the neighbourhood. A high vacancy rate may indicate a less desirable area, which could make it harder to rent the property out, or sell it in the future.
- Planning: Find out about proposed changes in the suburb that may affect future property prices. Things like new developments or zoning changes can affect the future value of a property.

Cash Investments

A *cash investment* is a short-term obligation, usually fewer than 90 days, that provides a return in the form of interest payments. Cash investments generally offer a low return compared to other investments but are associated with very low levels of risk.

Cash investments include:

- *Savings Account***:** Some people consider a savings account as an investment alternative for cash. Money held in the account is insured by the Federal Deposit Insurance Corporation (FDIC), however, the interest rate on these accounts is minimal. The average interest return on a savings account is only 0.09%. Investors that want the option to access their money any time but also require a slightly higher rate of return typically will put their cash in a high yield savings account, offered through local banks.
- *Money Market***:** This is a very short-term security that usually has a maturity of fewer than six months. They are very liquid investments that pay variable interest rates. Money market accounts generally have a slightly higher interest rate return than a cash savings account. Examples of money market instruments include commercial paper and treasury bills.
- *Certificate of Deposit (CD)***:** A CD functions like a bond in that it makes periodic interest payments to investors and funds are held for a predetermined period of time. But unlike bonds that can be sold prior to the maturity date, funds in a CD are locked in if held with a bank. Withdrawing the money will incur a penalty.

While cash investments tend to be the *least volatile* of the major asset classes, historically they tend to provide the lowest returns. That's why they are often used as places to keep emergency funds and to save for short-term objectives such as car and home purchases. Volatility is the extent to which asset prices or interest rates fluctuate over time. Volatility is often used to assess the potential risk associated with an investment.

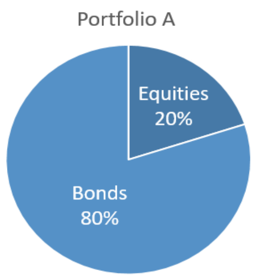
Cash investments are usually undertaken by investors who need a temporary place to keep their cash while researching other investment products. Investors benefit from the low-risk yield and high liquidity of cash investments. Interest rates tend to be low but an investor has access to his or her money within a short period of time.

Investor Types

Every investor will have different goals and their asset allocation will reflect this. The examples below highlight how different types of investors may choose to structure their investment mix.

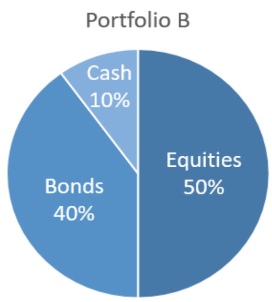
Example 1: The wary investor

An investor in her 30s is saving for retirement, and you might expect her to meet her goal by investing primarily in equity-based funds. But she's wary of the stock market and inexperienced with investing and sees that equities have suffered recent declines. She finds that she's most comfortable with a portfolio that includes 20% equities and 80% bonds.



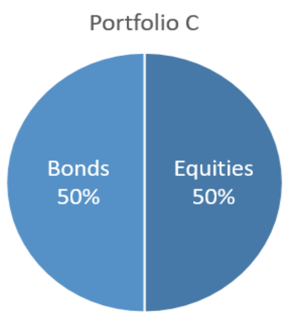
Example 2: The dual-income couple

A dual-income married couple in their 40s wants to build up additional savings for retirement in about 20 years. A portfolio that consists of 70% equities and 30% bonds might be appropriate. However, the husband's job (which provides nearly half of their income) has become unstable, and they're anxious about their economic future. So they may settle on a more conservative asset allocation of 50% equities, 40% bonds, and 10% cash.



Example 3: The recently retired couple

A newly retired couple in their 60s first considered a portfolio of 30% equities and 70% bonds. However, they believe their retirement benefits are ample for their income needs, and they want to build a larger estate to benefit their grandchildren. So they decide on a more aggressive asset allocation – consisting of 50% equities and 50% bonds. Here, the additional risk is expected to generate higher long-term returns.



Investment markets move in cycles, reflecting the underlying strength of the economy, industry trends and investor sentiment. Asset classes have performed quite differently in the last decades, which shows the importance of diversifying an investment portfolio. The basic principle is simple: combining asset classes that tend not to rise or fall together can potentially reduce your overall risk.

Investment Management
There are a number of ways you can invest your money in the asset classes we have discussed in the previous chapter. One of the most popular options is the use of pooled funds with the help of professional investment management companies.

Pooled Funds
Mutual funds offer a way for a group of investors to effectively pool their money so they can invest in a wider variety of investment vehicles and take advantage of professional money management through the purchase of one mutual fund share.
When you buy a mutual fund share, you're investing in stocks, bonds and other securities that are held within the fund. For example, a German equity fund is likely to hold a wide number of stocks from a broad set of different German industry sectors.
The mutual fund then passes along the profits (and losses) of those investments to its shareholders. So if a mutual fund does well, you benefit. But, they're not risk-free.

Advantages:
- *Diversification*: The holdings of a single pooled fund can range from a few securities to hundreds. This diversification can reduce the risk of loss due to problems in a particular company or industry.
- *Professional management*: Fund managers have access to extensive research, market information, and skilled traders.
- *Liquidity*: Shares in a pooled fund can be bought and sold on any business day, so investors have relatively easy access to their money.

Disadvantages:
- *Diversification penalty*: While diversification eliminates the risk from owning a single security whose value plummets, it also limits the potential for making a significant gain if a security's value increases dramatically. And, most importantly, diversification does not protect you from a loss caused by an overall decline in the financial markets.
- *Not bespoke*: Pooled funds are not bespoke investment portfolios. As a result, they may meet their investment objectives perfectly, but still not meet yours.
- *No guarantees*: As with many other investments, the value of a pooled fund will fluctuate, so it's possible for investors to lose money if they sell shares for less than they paid for them.

Active and Passive Managers
In broad terms, investment funds are managed in one of two ways – active or passive:

Active managers aim to beat, rather than simply match, the return of a market index or benchmark. There are several techniques managers may use. Typically, this is done by taking a top-down or a bottom-up approach.
- *Top-down managers* start by looking at economic trends to help them predict which sectors will prosper in the future. After zeroing in on particular industries, they try to identify their most promising companies.
- *Bottom-up managers* look for outstanding companies in any industry. They assume that a great company will do well even if it's in an industry that's not currently thriving.

Passive managers aim to closely match the returns of a market index or benchmark. Passive management is a style of management associated with *exchange-traded funds (ETFs)* where a fund's portfolio mirrors a market index (like the Dow-Jones, NASDAQ, etc). They do this by either purchasing all the shares in the chosen index or a representative sample of securities which aims to replicate the performance of the index. Therefore, passive managers do *not* attempt to beat the market. This is why ETFs have significantly lower fees and commissions than actively managed mutual funds.

Sustainable Investing

Sustainable Investing, also known as *Socially Responsible Investing (SRI)* or ethical investing, is any investment strategy which seeks to consider both financial return as well as social/environmental good.

In general, socially responsible investors encourage corporate practices that they believe promote environmental stewardship, consumer protection, human rights, and racial or gender diversity. Some SRIs avoid businesses perceived to have negative social effects such as alcohol, tobacco, fast food, gambling, pornography, weapons, fossil fuel production, or the military.

The areas of concern recognised by the SRI practitioners are sometimes also summarised under the heading of *ESG (Environmental, Social, and Governance) Investing.*

What Considerations Go Into Sustainable Investing?

Environmental	Social	Governance
Carbon emissions	Diversity & workplace policies	Board structure
Energy efficiency	Labor standards	Board composition
Water scarcity	Supply chain management	Executive compensation
Waste management	Product safety and usefulness	Political contributions & lobbying
Pollution mitigation	Customer privacy	Bribery and corruption policies & oversight
	Community impact	Strategic sustainability oversight

These are examples of ESG criteria but not a complete list.

For the investor, eco-friendly investing is a way to get peace of mind. If you're fully invested in sustainable companies, you don't have to worry that your wealth is working to benefit any companies that are actively destroying the environment or exploiting lax regulations in other countries. Eco-friendly investing also gives you the opportunity to foster innovation at companies that have green initiatives and rely on sustainable energy.

On the company level, there are clear returns for sustainability. For today's investors, "eco-friendly" and "sustainable" are more than just buzzwords: Many sustainable funds have been shown to match or even outperform the traditional market!

Just as there are multiple ways to manage a traditional portfolio, there are multiple ways to invest sustainably. You can either invest in sustainable funds and specific companies by yourself, or you can rely on an advisor.

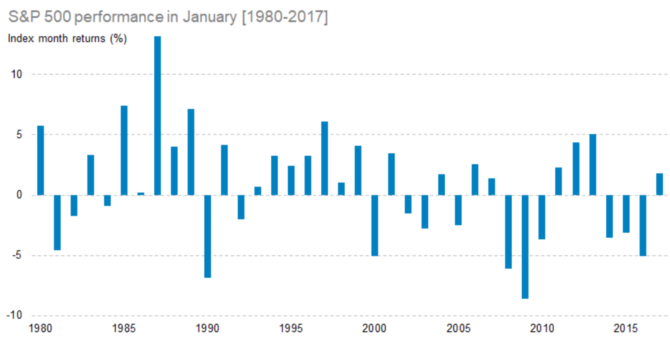
Sustainable Investing, Socially Responsible Investing (SRI), and ESG-Investing are investment strategies that seek to consider financial return as well as social and environmental good.

Monitoring your Investments

A number of factors will influence your portfolio and your investment choices over time. That's why it is important to understand the nature of markets. This background knowledge will enable you to react to market changes and to adjust your portfolio when necessary.

Market Movements

The assets you invest in will *rise and fall over time* as markets are affected by economic, social and political events. But always remember that it's in the nature of markets to fluctuate, sometimes quite dramatically. It's often impossible to explain market movements until long after the dust has settled. In other words, it is important not to lose sight of your investment objective and speak to your financial adviser before deciding to change your investment approach based on market moods.



Timing the markets for the best time to invest – buying and selling tactically for profit – is far easier said than done. Trying to pick the top and the bottom of the market is not easy. It's hard to sell when everyone is buying. If you sell out at the bottom (which many investors do) you risk being out of the market when it rallies. Even professional fund managers find it difficult to consistently time the markets.
This chart shows just how erratic the stock market can be, and shows the performance of the S&P 500 Index (the index which tracks the share prices of the 500 largest US companies) in January from 1980 to 2017.

However, despite the market's ups and downs over the decades, the index averaged approximately 9.8% per year total return. This represents solid performance for investors focused on the long term.
A popular strategy to benefit from the solid long-term performance of the stock market is spreading your investments over several months and years. This way, you avoid the risk of placing a large one-time investment at the wrong moment.

Review and Rebalance
You should review your portfolio at least annually to make sure your asset allocation stays on track. You may decide to review your portfolio, for example, if your personal situation has changed, or market conditions have altered. If you do not review and adjust your portfolio in light of changing circumstances, you risk not achieving your investment goals.
During your review, you may decide to *rebalance* your portfolio – that is, change the proportion of assets you hold. This will involve selling some investments and buying others. When you rebalance, you need to think carefully about the costs and tax implications. In most cases, such as buying equities or bonds, you will have brokerage costs – and with some pooled funds you may be asked to pay an initial charge or an exit charge. You may also have a capital gains tax liability if a sale of assets means you go above your annual allowance.
If you need to make changes, you could consider *rebalancing in three ways:*

- *Reinvest dividends***:** Direct dividends or capital gains from the asset sector that has exceeded its target into one that has fallen short.
- *Top up***:** Add money to the asset sector that has fallen below its target percentage.
- *Transfer***:** Move funds between asset classes. Shift money out of the asset sector that has exceeds its allocation target into the other investments.

Conclusion
In this course, you learned the basics of investing money. In simple words, investing means putting your money to work for you. You learned that each investor is different in his/her risk tolerance and that there is more than one strategy that can be used to invest successfully.
With an understanding of your investment goals, time frame, and risk, you can begin to create an asset allocation for your portfolio. Asset allocation simply means deciding how to spread your money across the different asset classes (including equities, bonds, property, and cash) and how much you want to hold in each. It also means selecting a mix of asset classes that reflects your objectives, time frame, and attitude to risk:

- *Equities*: Potential for capital growth, and may offer income through the payment of dividends. You can choose to invest in national and overseas companies.
- *Bonds*: Can provide a steady and reliable income stream with potential for capital growth and usually offers a higher interest rate, or yield, than cash. Includes government bonds (gilts), overseas government bonds, and company loans (corporate bonds).
- *Property:* Provides the benefits of diversification through access to properties in retail, office, industrial, tourism and infrastructure sectors. You can invest in both national and international property.
- *Cash Investments*: May be suitable for short-term needs, such as an impending down payment on a new home. Usually includes higher interest-paying securities, as well as bank and building society accounts or term deposits (a cash deposit at a financial institution that has a fixed term).

Remember that investing successfully is about knowing what you want, understanding your time frame for investing and your attitude to risk, and then making a plan to help you achieve your objectives. You should review your plan regularly and rebalance your investment portfolio when necessary.
Finally, always keep an eye on costs. The power of compounding means that you could end up with a much bigger pot of money over the longer term.

PROFESSIONAL CARRIER SKILLS

TIME MANAGEMENT

Introduction

Welcome to Time Management!
It seems that there is never enough time in the day. But, since we all get the same 24 hours, why is it that some people achieve so much more with their time than others? The answer lies in proper time management.
The highest achievers manage their time exceptionally well. By using popular time-management techniques, you can improve your ability to function more effectively – even when time is tight, and pressures are high. Excellent time management requires a significant shift in focus from activities to results: being busy isn't the same as being productive. Ironically, the opposite is often closer to the truth.
Spending your day in a frenzy of activity often achieves less, because you're dividing your attention between so many different tasks. Proper time management lets you work smarter – not harder – so you get more done in less time. "Time management" refers to the way that you organise and plan how long you spend on specific activities.
It may seem counter-intuitive to dedicate precious time to learning about time management, instead of using it to get on with your work, but the benefits are enormous:

- Greater productivity and efficiency.
- A better professional reputation.
- Less stress.
- Increased opportunities for advancement.
- Better opportunities to achieve life and career goals.

Failing to manage your time effectively can have some very undesirable consequences:

- Missed deadlines.
- Inefficient workflow.
- Poor work quality.
- Poor professional reputation and a stalled career.
- Higher stress levels.

Spending a little time learning about time-management techniques will have huge benefits now – and throughout your career.

There is a difference between being effective at managing your time and simply being busy. Many of us are used to busy work and may not even question anymore whether or not it is a valid use of our time. But this course will help you take on a new time management goal: Concentrate on results, not on staying busy.

Self-Assessment

Let's start our online course about time management with an assessment of where you are now. On the next three pages, you will be asked to complete three brief mental exercises which can give you an idea of whether or not time management might be an issue for you.

Exercise 1

First, on a sheet of paper, draw a line down the middle. On the left-hand side, list at least five things that are the most important to you. Start with the most important, and continue the list in order. List people, things, ideals, activities – whatever it is that is very important to you and your happiness. For example, a list might look like this:

Family Health Integrity Friends Work Pets Reading	

On the right-hand side, list all the things that you spend your time on. Start with what you spend most of your time on and continue with what you spend the least time on. This list might look like this:

Family	Work
Health	Family
Integrity	Sleeping

Friends	Errands
Work	Housework
Pets	Helping kids with homework
Reading	Friends

You've probably figured out the point of the exercise by now. Most of us don't have the luxury of spending the majority of our time on the things that are most important to us. For every item that we are not spending what we would consider to be enough time on, we will experience some form of dissatisfaction over that fact. When things are very important to us, and we are not able to dedicate any time to those things at all, unhappiness is often the result.

However, successful time management will help you to become more effective in completing the tasks that you have to complete so that there is more time available for you to spend on the things that are important to you. This isn't necessarily always an easy feat; in some cases, it would require significant changes for you to spend time on the things that are important to you.

For example, if you currently don't have a college degree but you feel that getting one would significantly enhance your career possibilities, deciding to go back to school is a significant, life-altering decision that demands that you restructure your time accordingly. But at the same time, many things that we want to do can be accommodated if we learn to use our time more wisely by applying some effective time management techniques. Doing so will make us happier and more balanced so that we are less susceptible to stress and more able to achieve our goals.

Time management also helps you have a greater sense of control over your life – both at work and at home. When you feel as if you are in control of your time, you feel empowered and confident. When something arises that you were not prepared for, you're more likely to be able to deal with it productively rather than getting stopped by it.

Exercise 2

Let's continue with another short exercise. Answer each of the questions below by rating yourself on each item listed with a 1-5, with one being the lowest or least frequent and five being the highest or most frequent.

Section I:

- Using goal-setting to determine what activities to work on.
- Facing deadlines and commitments without stress.
- Checking in with the boss to confirm priorities.
- Considering how valuable the results will be before taking on a project or task.

Section II:

- Working on tasks that have the highest priority.
- Being aware of how much time I spend on each of my job tasks.
- Being aware of the value of each task I complete.
- Prioritising each new assignment or task according to an analysis of its importance.
- Prioritising a daily 'to do' list.

Section III:

- Preventing and managing interruptions daily.
- Staying focused on important tasks.
- Completing everything during the workday rather than taking work home.

Section IV:

- Completing tasks well before they are due.
- Meeting deadlines without having to ask for extensions.
- Sticking to a daily work schedule to complete assigned tasks.

Section V:

- Setting aside time for scheduling and planning.
- Planning time in my day for the unexpected.
- Planning daily breaks during the workday.

Did you score yourself for each item? Perfect. Now, for each section, total up your score and then divide it by the number of questions in that section to give yourself an average score for that section. Now order the sections from lowest to highest. For example, your results might look like this:

- Section II: 2.4

- Section IV: 2.8
- Section I: 3.2
- Section V: 3.5
- Section III: 3.7

Each of the sections you scored is related to a specific time-management skill, as shown below:

- Section I: Goal Setting
- Section II: Prioritisation
- Section III: Managing Interruptions
- Section IV: Procrastination
- Section V: Scheduling

From the sample results above, I would know that my weakest area of time management is Section II, or prioritisation. It would behoove me to start working on that skill first before moving on to additional skills. I would next work on Section IV, or procrastination, and so on. It would be a mistake to assume that just because my results show that I am strongest in managing interruptions that there is nothing more for me to learn in that area.

Exercise 3

Another way to gauge where your time management issues might be is to keep track of how you spend your time at work. To get an accurate picture, you will need to choose a period of time, preferably a week, that is representative of your average workload. For example, if you have a peak in activity at the end of the month, you would want to pick a week that crosses into that timeframe but is not entirely in that timeframe so that the 'normal' days balance out the heavier workload days. You wouldn't want to pick the week of winter holidays unless you are specifically interested in identifying how you use your time during that period of the year.

Next, assign a number to each item you list that indicates the priority level of that item in comparison with everything else that you had to do that day. Give a 1 to items that were low priority, a 2 to items that were medium priority, and a 3 to items that were highest in priority.

A sample daily activity log might look like this:

DATE:	August 12, 2010			
Time Started	Time Ended	Total Time	Activity	Priority 1= Low 2= Medium 3= High
8:00	8:05	5 minutes	Listened to voicemail	2
8:05	9:15	70 minutes	Responded to emails	2
9:15	10:30	45 minutes	Prepared slides for presentation	3
10:30	10:45	15 minutes	Chatted with Sue	1

There are a few guidelines to follow to get the most value out of this activity. These include:

- Use one sheet per day
- Be accurate. Instead of saying 'worked on a project,' put down exactly what you did to work on the project. Did you meet with others? Research benchmark information? Be as specific as you can
- Be honest. This is only for you; no one else is going to see it. So be honest about your day and how you spend your time. That's the only way you will be able to identify areas that you can improve.
- Watch the prioritisation of your tasks. Not everything can be a 3, and hopefully, not everything is a 1, though you could find one day having all of the same levels of priority in activities.

At the end of the day, review the information you wrote down and use it to identify the results you achieved that day. From our example (table above), checking your voicemail might have resulted in confirming an appointment. Checking and responding to emails might have resulted in resolving a problem. Chatting with Sue probably didn't have any results unless it was work-related. If you don't see any results that came from an activity, mark that activity with an asterisk (*). At the end of the week, those starred activities will represent possible areas for improving your use of time.

Now notice how you spent your time in relation to your priorities. Ideally, you spent the most amount of time on the items with the highest priority and the least amount of time on items with the lowest priority. If you see that this is not the case, and it's a pattern over time, you have identified one possible area for improvement already.
Depending on how comfortable you feel about it, consider sharing the results of your activity log with your supervisor. It can be a great way to start a conversation about the priorities that he or she wants you to focus on versus where your time is actually going.

Goal Setting

Goal setting is a powerful tool that can be used to motivate and challenge employees or yourself. Knowing that you have achieved a goal gives you a sense of accomplishment and gives you a way to keep track of what you have completed in the workplace.

Locke's Goal-Setting Theory

Dr. Edwin Locke published his theory on goal setting in 1968 in an article called "Toward a Theory of Task Motivation and Incentives." His argument was that employees were motivated by having a goal to work towards and that reaching that goal improved work performance overall. He showed that people work better when their goals are specific and challenging rather than vague and easy. For example, telling someone to 'improve customer service' is not precise. You might know what it means, but will the employee interpret it the same way? Instead, the goal should be clear, such as 'reduce customer complaints by 50% over five months.'
In 1990, Locke and Dr. Gary Latham published "A Theory of Goal Setting and Task Performance" in which they identified five principles that were important in setting goals that will motivate others. These principles are:

- *Clarity*: A clear goal is one that can be measured and leaves no room for misunderstanding. Goals should be very explicit regarding what behaviour is desired and will be rewarded. Look at the goals listed in Figure 2 below to help you understand how to be more explicit when setting goals. Continue to ask yourself the question, 'What will it look like if the goal is completed?' The answer to the question will help you identify clear goals.
- *Challenge*: What would give you a greater sense of accomplishment: achieving an easy goal or achieving one that was a real challenge? We are motivated by the reward that we believe we will receive for completing tasks. So if we know that a goal is a challenge and is also perceived as such by those that assigned it to us, we are more likely to be motivated to achieve it.
- *Commitment*: For goals to be effective, they need to be agreed upon. The goal should be in line with the established expectations that you have had for the employee in the past. The employee and employer must both be committed to using the resources needed to complete the goal and should also agree on what the reward will be. This takes more time and energy on both parts, but it prevents an end result where the employee didn't have what he or she needed to have in order to be successful, or where the employer is frustrated by the employee's distaste for pursuing the goal.
- *Feedback:* Goal setting is not going to be effective if there is not an opportunity for feedback. What if the person is halfway to completing the goal, but they have a question? What if you suspect that the person is going about the process of completing the goal in the wrong way? Feedback is a chance to correct or clarify before the goal has been reached.
- *Task complexity*: The final principle in Locke and Latham's goal-setting theory is related to the level of complexity of the assigned task. When a role is complex or highly technical, the person in that role is often already highly motivated or else they wouldn't have reached that level in their organisation. However, even the most motivated person can become discouraged if the complexity of the task and the time it would take to complete, it wasn't fully understood. Projects can have the tendency to reveal themselves as being more complex after they have begun, so both the employee and supervisor need to be in communication about how involved a task has become.

SMART Goals

In goal setting, there is one method that has stood the test of time. Although there have been variations to what the acronym stands for over time, the primary definition of a SMART goal is one that is:

- *Specific*: When a goal is specific, then you have clearly identified what it is that you expect to be accomplished. If you can't say what you want to achieve, then how can you expect yourself or a subordinate to be able to achieve it? A specific goal will answer questions like: Who is taking action or is affected? What is the result I want to achieve? When do I want to complete this goal?
- *Measurable*: Each goal that you set should be measurable so that you have a means of ascertaining how far along you are in reaching the goal as well as when the goal will be complete. If you have a measure

for the entire project, for example, reaching 750 customers, then you can also determine how much of your daily workload should be dedicated to achieving the goal.

- *Attainable*: Before you begin working, you need to be sure that the goal is truly achievable. If a goal is not feasible given the constraints that you face, you either need to work towards removing those restraints or lowering the level of the goal so that it becomes attainable.
- *Realistic*: If a goal is to be realistic, it must be something that you are willing and able to work towards. This doesn't mean that all your goals have to be low and simple. It just means that you have done a thorough analysis of the task at hand, and you have come to the conclusion that the goal is realistic. Some questions you could ask yourself during this analysis include: Do I have the resources (financial, personnel, equipment, etc.) to reach the goal? Do I have the support of others in the department and the organisation?
- *Timely*: The final component of the SMART goals strategy is 'timely.' Without adding a time restriction to your goals, you don't have the necessary motivation to get going as soon as possible. Adding a realistic time boundary lends a sense of urgency to your goal and will help to keep you focused. Since organisations change regularly, so can goals. Making sure your goal is set with a time limit also ensures that you complete the goal while it is still relevant to what you are doing on the job.

Prioritisation

Prioritisation is the skill to make the best, most effective use of your time, ability, and resources as well as those of your team. When you feel like work is never-ending and time is at a premium, prioritisation is what will help you spend your time wisely and move forward on meaningful goals.

Important vs. Urgent

We've all had it happen. We're having a good day, getting our work done when someone calls or rushes into the office in a hurry. They have a fire on their hands, and they want your help in putting it out. You feel the need to drop what you're doing and dedicate your time to helping them with the latest crisis. You have to be a team player, right? And if the person asking for help is your boss, do you really have a choice?

Well, maybe you do have a choice. You need to learn to determine whether or not the sudden urgent request from someone else is truly important concerning your goals, your priorities, and your role in the organisation. To help you do this, consider the chart below. You'll see that the table is divided into four quadrants based on whether or not an item is important and whether or not it is urgent.

	Important	Not Important
Urgent	**QUADRANT I**	**QUADRANT II**
Not Urgent	**QUADRANT III**	**QUADRANT IV**

Looking at the figure above, in which quadrant would we ideally spend the majority of our workdays? To have the highest job satisfaction and the least amount of work-related stress, we would spend the majority of our time in Quadrant III. In this quadrant, we are not harried by urgent, pressing matters, but we are working on things that are important to the organisation. We can make progress and move forward, feeling at the end of the day that we have accomplished a great deal.

That's the ideal world. But where do we spend most of our time in the real world? If you are always responding to the crises of others – even when they don't have an impact on your own work or work product, then you are in Quadrant II. Everything feels urgent, but it's not actually important. If you spend your day doing busywork, then you are focused in Quadrant IV, where things are not urgent and are not important. This can be a frustrating experience because you may not be able to feel as if you have contributed something of value at the end of the day. These could be distractions as well, such as talking to colleagues, surfing the internet, or other time-wasters.

All of us are going to spend time in Quadrant I eventually. Whatever is at stake is actually very important to our own job or work product, and it happens to be urgent as well. What you want to learn is to distinguish these true emergency situations from situations that seem urgent but just aren't that important. Before you drop everything next time, ask yourself the following questions:

- Is this truly important or just urgent to the person requesting my help?

- What will the consequences be if I don't handle this immediately?
- Do I actually have important and urgent things that should be done instead?
- Is there someone else who can handle this situation?

If you determine that the request for your action is actually not both urgent and important, then chances are there is someone better suited to handle the request. If you are receiving the request from your supervisor, you can ask her what she would rather that you focus on – the item that is both urgent and important, or the item that she has brought to you. Reminding her that you have other important work to do and that it will have to wait if you respond to her urgent request might have her reassign the request – or it might not. But at least you know that you are applying your efforts to exactly the activity that she wants you to handle at that time.

Paired Comparison Analysis

When you aren't certain how to make a decision because you can't seem to identify good criteria, a paired comparison analysis can be useful. It allows you to compare each item on your list with every other item on the list in order to determine which are the most important. It is also very useful when you are trying to compare things that are completely different from one another.

Let's imagine that you can't decide which of the following to focus on first:

- Customer service
- Employee training
- Increasing sales
- Decreasing lost revenue

You start by creating the paired comparison chart. Assign a letter (in this case, A-D) to each of the four items you are trying to prioritise. Then create a grid with each item as a row heading and a column heading. (You can ignore the blocks that have you comparing the item to itself since there will not be anything to prioritise in those cases. You should then ignore the boxes that are repeating a comparison such as Employee Training vs. Increasing Sales and Increasing Sales vs. Employee Training.)

	Customer Service (A)	Employee Training (B)	Increasing Sales (C)	Decreasing Lost Revenue (D)
Customer Service (A)				
Employee Training (B)				
Increasing Sales (C)				
Decreasing Lost Revenue (D)				

In the boxes that remain, you compare the two items and determine which one is more important. For example, if you start at the top left, the first pair that you are comparing is Customer Service and Employee Training. Between those two items, write the letter of which item is more important. Follow it with a number that relates to how large the difference in importance is, starting with 0 for there being no significant difference in importance to 3 for a large difference in importance.

	Customer Service (A)	Employee Training (B)	Increasing Sales (C)	Decreasing Lost Revenue (D)
Customer Service (A)		A, 2	C, 1	D,1
Employee Training (B)			C, 2	D, 3
Increasing Sales (C)				C, 2
Decreasing Lost Revenue (D)				

Now you can determine the results by adding up the importance scores for each item. In our example, the results would be:

- A: 2
- B: 0
- C: 5
- D: 4

From this analysis, we can determine that increasing sales has the highest priority, followed closely by decreasing lost revenue. These would be the two items to give the most priority according to this tool. It's important to note that although employee training received no rating, that doesn't mean that it is not important at all – it may already be of high quality or it might just not be as large an area of concern as the other three items.

Grid Analysis

When you have a number of good options to consider and a number of factors that could influence the decision, you may need a prioritisation tool that is more complex than the paired comparison grid. In these cases, a grid analysis is a useful tool for making decisions or prioritising your work.

To begin, you'll create another grid. This time the options will be the rows, and the factors that will affect your prioritisation will be the column headings. You will then assign a score and a weight to each pairing in order to get an overall score for each option. Let's use an example for this grid analysis of prioritising which firm to use as a marketing consultant.

	Cost	Overall Experience	Experience Similar to This Project	Recommendations	Quoted Time Frame
Weights:					
ABC Consulting					
Market Consulting Inc.					
XYZ Consulting					
Global Consulting Resources					

Now that your grid is ready, you need to assign a weight to each factor so that you know which factors are most important and which are less important. Use zero if the factor isn't important at all and five for the most important factor or factors. You can have more than one factor with the same score. Write the weight in the 'weight' row in your grid.

Next, you will start with the first column, in this case, cost. Go down the column and rate each option on this factor with a number from zero for poor to five for excellent. Then move on to the next column and complete the same rating, repeating this step until the columns are all completed. The resulting grid will look like this:

	Cost	Overall Experience	Experience Similar to This Project	Recommendations	Quoted Time Frame
Weights:	5	3	5	4	2
ABC Consulting	3	3	1	5	4
Market Consulting Inc.	4	4	3	4	4
XYZ Consulting	5	4	5	3	3
Global Consulting Resources	2	5	5	5	1

To calculate the results, you take the rating that you gave the consulting firm for a category and multiply it by the weight factor. For example, ABC Consulting was rated a '3' on cost, which has a weight factor of '5'. Simply multiply 3 by 5 for a score of 15 for this category for ABC Consulting. Once you have all of the scores tabulated, you add the scores across each factor to get a total score for each option.

In this case, the ‘winner’ is XYZ Consulting. When you present your recommendations for a consulting firm, you can now demonstrate a logical reason for the recommendation and even discuss the different factors individually should someone want to remove a factor from consideration.

	Cost	Overall Experience	Experience Similar to This Project	Recommendations	Quoted Time Frame	TOTAL
Weights:	5	3	5	4	2	
ABC Consulting	15	9	5	20	8	57
Market Consulting Inc.	20	12	15	16	8	71
XYZ Consulting	25	12	25	12	6	80
Global Consulting Resources	10	15	25	20	2	72

Pareto Analysis

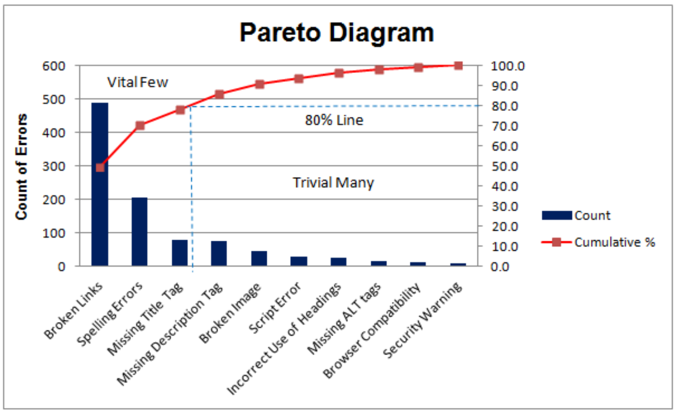
Pareto Analysis is a statistical technique in decision-making used for the selection of a limited number of tasks that produce a significant overall effect. It uses the Pareto Principle (also known as the 80/20 rule) the idea that by doing 20% of the work, you can generate 80% of the benefit of doing the entire job. Take quality improvement, for example, a vast majority of problems (80%) are produced by a few key causes (20%). This technique is also called the vital few and the trivial many.

We can apply the 80/20 rule to almost anything:

- 80% of customer complaints arise from 20% of your products and services.
- 80% of delays in the schedule result from 20% of the possible causes of the delays.
- 20% of your products and services account for 80% of your profit.
- 20% of your sales force produces 80% of your company revenues.
- 20% of a system’s defects cause 80% of its problems.

Here is a simple example of a Pareto diagram, using sample data showing the relative frequency of causes for errors on websites. It enables you to see what 20% of cases are causing 80% of the problems and where efforts should be focused to achieve the greatest improvement. In this case, we can see that broken links, spelling errors, and missing title tags should be the focus:

The value of the Pareto Principle for a project manager is that it reminds you to focus on the 20% of things that matter. Of the things you do for your project, only 20% is crucial. That 20% produces 80% of your results. Identify and focus on those things first, but don’t entirely ignore the remaining 80% of the causes.



Nominal Group Technique

When you work in a group, you often have to come to some sort of consensus on what your priorities should be. It is not always easy to do so, particularly when the group members have different motives and different goals. The Nominal Group Technique is a means of reaching consensus when you have a diverse group and when having each member ‘buy-in’ to the decision is important for the success of the team.

While in a group, you create a list of issues that you think you need to prioritise. Once you have identified the list, see if there are items in the list that can be grouped together. For example, if you had on the list 'poor response from technical support' and 'technical support takes too long to reply,' you could group those two together.
Once you have a final list, have each person rank what they feel is the most important to the least important issue to be solved. Encourage them to think of each item in terms of the impact it has on their results. If there are 10 issues, the ranking should be 1 to 10 with 10 being the most important and 1 being the least important.
What you end up with is a data set that you can use to determine what the group feels is the priority issue to work on:

	Issue 1	Issue 2	Issue 3	Issue 4	Issue 5	Issue 6
Amy (or Person 1 if you are doing this anonymously)	5	1	3	4	6	2
George	6	4	1	3	2	5
Pete	2	3	5	6	1	4
Celia	4	1	2	5	3	6
Robert	1	2	4	6	3	5
Ann	3	2	6	4	5	1
TOTALS:	21	13	21	28	20	23

In this example, there is a strong sense from the group that Issue 2 is the least important issue that you are facing. The group has also determined that the most important issue is Issue 4. If you decide to assign priority to work assignments using this method, you would focus on those that would improve Issue 4 before moving on to Issue 6 and so on. In a case where your scores are tied for an issue, you may have to make the decision using another tool or simply ask your supervisor which item they would prefer that you work on.

Managing Interruptions

If you used the daily activity log exercise recommended in Chapter 2, then you probably have a good idea of how many times in the day you face interruptions. Most of us are so accustomed to being interrupted during the day that we won't even notice when it is happening.
Some interruptions are inevitable, since not everyone that you work with, from bosses to subordinates, will have the same exact priorities every day that you have. In an ideal world you could simply align your priorities so that you all had the exact same work tasks every day and you would greatly decrease or eliminate interruptions.
But in many work situations, this is impossible. We all have a role to play in our organisation that is different from the role of our colleagues. This means that eventually, there will be interruptions. How you manage them, however, is entirely up to you. Here are some tips that might help:

- Before calling a meeting, determine if it is truly necessary. Can you handle it by email or a short conference call? Don't take your time and the time of other people unless a meeting is truly the best way to achieve your goal.
- Before calling a meeting, be sure that you have a specific result in mind. If you don't know why you are meeting, how will you know if you accomplished what you needed to accomplish?
- Before attending a meeting, be sure that you understand exactly what the meeting is about. 'To discuss the third quarter figures' is not specific enough; what is the expected result? Then when you go to the meeting, you'll be fully prepared to participate and move the group towards the result that is expected.
- Do your most important tasks first. Believe it or not, work that's of lesser importance (busywork) can distract you from doing your most important work. People often think that by crossing a ton of small items off their to-do list, they'll feel productive. Don't let these little tasks interrupt the progress you need to make on your bigger goals!
- Use 'Do Not Disturb.' If you have that feature on your phone system, use it. The feature allows you to direct calls to your voicemail rather than having the phone ring in your office. Then when it is convenient for you, you can respond. Don't be afraid to use a sign on your door that says 'do not disturb' if you have a serious deadline that you have to concentrate on – sometimes a physical sign is what it will take for some people to get the message.
- Stand up to visitors. Not in the sense of defending yourself, but in the sense of defending your time. An excellent tactic for ending a conversation is to simply stand up from your desk. This signals to the other person that you have somewhere to be. If you have to, actually walk out of the office. Head to the bathroom, the break room, or even the stairwell for a moment before returning to your desk.

- Learn to say no. Most of us don’t like to say no to others. We want to be seen as a team player, and we want to be included in what the rest of the team is talking about or doing. But sometimes the best thing for you and your workload is to simply say no. You can do so graciously, of course, by giving the person another opportunity for whatever they are offering. If they invite you to lunch today, propose that you go on Friday. If they want your input on how they are progressing on their project, let them know that you would like to help them but you can’t at the moment – then schedule time in your week to help them when it’s convenient for you both.
- Prioritise your email and ask others to do the same by using an appropriate subject heading. Not every email is urgent! Then again, some are. So use the indication of urgent conservatively and ask others to use it sparingly as well. Your email subject should be clear and indicate whether or not a response is needed.

Think back to your last workday, and consider for a minute the many interruptions that occurred. There may have been phone calls, emails, hallway conversations, colleagues stopping by your office, or anything else that unexpectedly demanded your attention and, in doing so, distracted you from the task at hand. Because your day only has so many hours in it, a handful of small interruptions can rob you of the time you need to achieve your goals and be successful in your work and life. More than this, they can break your focus, meaning that you have to spend time re-engaging with the thought processes needed to complete complex work successfully.

Procrastination

In order to manage procrastination, you need to first become aware of when it is happening. Next, you will need to try to understand why you are procrastinating. Once you understand why you are procrastinating, you can take the steps needed to manage and resolve it.

Indicators of Procrastination

There are times when you have a valid reason for avoiding doing a project. For example, perhaps you don’t have all the information you need or you believe that by waiting an additional time period you will have more accurate results. And then there are the times when waiting is simply that – waiting. When you are focusing on something other than what you should be focusing on according to your priorities and the priorities of your organisation, you are procrastinating.

Another more scientific definition comes from psychologist Clarry Lay. He states that procrastination is the gap between the time that we intend to perform a task and the time that we actually perform it. That gap of time could actually be applied to the task that you are avoiding, getting it completed and out of your way that much sooner.

When you are focusing on something other than what you should be focusing on according to your priorities and the priorities of your organisation, you are procrastinating.

Are you still not sure of how often you procrastinate when you good simply tackle the task and get it done? Here are some common indications that you may be procrastinating:

- Filling your ‘to do’ list with items of low importance
- Filling your ‘to do’ list just to look busy
- Handling papers repeatedly instead of doing what you need to do with them the first time
- Reading emails repeatedly without deleting, filing, or responding to them
- Finding reasons to leave your desk when you start working on a high-priority task
- Leaving something on your ‘to do’ list that is actually important
- Deciding to postpone working on something until you feel like it, have more energy, or are in a better mood
- Saying yes to helping others with tasks that are not as important as those already on your ‘to do’ list
- Deciding to wait to work on a project because you think you do your best work under pressure

If you performed the Daily Activity Log exercise described in Chapter One, you can now look back at your logs and see if you can identify where you were procrastinating. Look for tasks that you normally have a hard time completing. Then look to see what you did earlier that day. Did you take multiple coffee breaks? Did you make phone calls that weren’t really necessary at that time? Once you recognise when you procrastinate, you have the opportunity to change your attitude and your behaviours in order to manage and eliminate procrastinating behaviour.

Strategies for Overcoming Procrastination

Unfortunately, procrastination can become an ingrained habit that is difficult to stop. So you will need to work to conscientiously combat the behaviours that have led to your procrastination in the past.

There is no one right way to combat procrastination – anything that helps you to be more productive is useful. Consider trying a combination of the techniques in this section until you find the ones that work best for you.
When the Task is Unpleasant: This category of activities is probably the most often experienced – and certainly one that most workers can relate to. What's important is finding a way to motivate yourself and to be accountable for your actions so that you are less likely to procrastinate and so that you focus on the value that your efforts will bring. Here are some tips that you can use when you simply don't want to do what you have to do:

- Identify what will happen if you don't complete the task. How will it impact you? Your coworkers? What about your customers, both internal and external?
- Remind yourself that you are being paid to do the tasks that your supervisor or the organisation feels are most important. If you aren't doing that, you aren't doing what you are being paid to do.
- Determine ways to reward yourself for completing unpleasant tasks. Preferably, they should not be unhealthy rewards!
- Ask your coworker to check up on you to make sure you have done what you said you would do. This is a positive use of peer pressure.
- Remind yourself that you don't have to WANT to do something in order to DO it.

When You Are Disorganised: When you are disorganised, you need to learn the tools that will help you to make organisation a normal part of your day. Remember that it can take weeks to change a habit, so you need to give yourself the time to make your new practices your new habits. Here are some suggestions for how to get organised once and for all:

- Make it a rule that you will not leave for the day without clearing up your workspace.
- Force yourself to handle emails and paperwork the first time that you touch them in order to avoid the piles of paper that can tend to accumulate.
- Plan your day according to what the most important things to achieve that day are.
- Use a timer to keep yourself aware of the time you are spending. If you have to work on other tasks besides the one you are facing, set the timer to limit the amount of time you will allow yourself to spend on it before getting back to the task at hand.
- Create a filing system that would allow anyone else to walk into your space and easily locate what they are looking for.
- Don't leave for the day without making a 'to do' list for the next day

When the Project Feels Overwhelming: If you simply feel overwhelmed by a project, we've discussed the fact that it usually means that something is missing. Once you've identified what that 'something' is, you have the opportunity to ask for that support or resource that will help you to lessen the sense that you are overwhelmed by all that there is to do. You can also try some of the following techniques whenever you feel overwhelmed:

- Take the task and break it into smaller, easily achievable tasks.
- Start with the easiest or fastest tasks first so that you feel some sense of accomplishment.
- Reward yourself as you complete each sub-task. Such positive reinforcement can help you feel more optimistic about the rest of the project.
- Ask for input from others, particularly if you haven't managed a project of this size before. Getting a brief 'lessons learned' from someone else can equip you to recognise pitfalls before you hit them.

When You Are a Perfectionist: Perfectionism is often based on the fear of what will happen if you make a mistake or a fear of 'looking bad.' However, you can take some steps to avoid these negative consequences without getting stopped because you are afraid the results won't be perfect. Some tips include:

- Review the expected results for the project with your supervisor. What would he or she consider success to look like?
- Schedule regular check-in points with your supervisor and/or teammates so you can identify any potential problems before they occur.
- Realise that no one is perfect and hiccups will occur. Instead of letting this cause you to procrastinate, consider it a challenge to your problem-solving skills.
- Practice some stress-management techniques so that you are prepared for those moments when problems arise.

When You Are Having Trouble Making a Decision: In any project there are times when you will have to make a decision. Yet if you aren't sure which option is the best one, you will undoubtedly find yourself at a standstill. However, you need to realise that this is just another form of procrastination. You can take a number of steps to help you make that decision and keep on moving. Some suggestions include:

- Use one of the prioritisation tools discussed in this course to help you identify the best choice.
- Use a group consensus to come to the best decision.
- Ask for input from your supervisor or others.
- When all else fails, just make the best choice that you can. Moving forward in any direction is usually better than not moving at all.

Scheduling

If you are someone who feels that schedules are restrictive, then you haven't yet learned the power that they can provide. To be able to fit in the things that are important to your job and you, a schedule is a vital tool. It allows you to block out segments of time and assign them to a specific activity.

Scheduling activities help you with your work, particularly if there are certain items that you never seem to find the time to do or items that you seem to put off doing time and again. But to be as effective a tool as possible, you should think about scheduling in short, medium, and long-term time frames:

Long Term Schedules: Most of us have goals that have been set for us for a period of time, such as a quarter or a year. In order to achieve those goals, we need to manage time effectively. Besides using the skills already discussed in this course, a long-term schedule lets you plan for how you will reach these long-term goals.

You can start a long-term schedule with a master schedule that lists those fixed tasks that you identified in the previous section. Then you can fill in what you estimate to be the required time that will be required each week in order to complete a project on time. You don't necessarily have to decide now that on the third Tuesday of next month you will make phone calls to 25 customers. But you should know what you need to achieve that week in order to meet that month's goals, which will lead you to make that quarter's goals and then your goals for the year.

Medium Term Schedules: In many cases, a weekly or monthly schedule will serve as a long enough time for a medium-term schedule. It simply depends on what makes the most sense for your type of work. For example, if your work tends to cycle over a month-long period, then use a month as the basic length of time for your medium-term schedule. This becomes a snapshot of your activity for the month or week that you can use to help you reach those long term scheduling goals. Again, be sure that you leave time for those unexpected tasks so that they don't derail your planning when they occur. Don't forget to schedule a time to get your scheduling done for next month either.

Short Term Schedules: In most cases, a short-term schedule refers to a daily schedule. Your daily schedule not only helps you make sure that you are working on the most important things first, but it also serves as a record for what you have accomplished. Remember to be as specific as possible when you fill in your daily schedule so that it is perfectly clear whether or not you have achieved what you set out to do. If you still find that you are having time management issues, review your schedule, and compare it to what you actually did during that day. You may be able to discover where the weaknesses remain in your time management skills.

Scheduling is the process of arranging, controlling, and optimising work and workloads in a production process. Companies use backward and forward scheduling to allocate plant and machinery resources, plan human resources, plan production processes, and purchase materials.

Conclusion

It seems that there is never enough time in the day. But, since we all get the same 24 hours, why is it that some people achieve so much more with their time than others? The answer lies in good time management. The highest achievers manage their time exceptionally well.

By using the time-management techniques that we have covered in this course, you can now improve your ability to function more effectively – even when time is tight and pressures are high. Good time management requires an important shift in focus from activities to results. As we have mentioned it before: *being busy isn't the same as being effective.*

As you have seen in this course, managing time effectively entails analysing your goals, breaking those goals into tasks, and then prioritising those tasks. This isn't always easy or clear cut, given the number of tasks you may need to complete. But if you set clear and measurable goals and then develop an effective to-do list, you'll find prioritising your many tasks is easier. And, in the end, you'll manage your time better.

COMMUNICATION SKILLS

Introduction

Welcome to Communication Skills!
The ability to communicate is an essential life skill and one that can be continually developed. Even if you are a naturally good communicator, there are always opportunities to enhance your communication skills.
This course will give you an overview of communication and introduces you to the main elements in the communication process. It also highlights the importance of producing clear, positive messages and offers you some basic tips and guidelines on this form of communication so that you may become more proficient in the kind of communication needed at home as well as in the college and workplace. You will also learn about some of the common pitfalls which may impede the effectiveness of business communication.
Communication is a learned skill. However, while most people are born with the physical ability to talk, not all can communicate well unless they make special efforts to develop and refine this skill further. Very often, we take the ease with which we communicate with each other for granted, so much so that we sometimes forget how complex the communication process actually is.
On completion of this course, you should be able to:

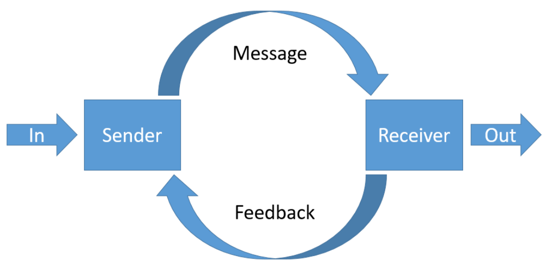
- Identify the key components of the communication process.
- Identify some typical problems that can arise in the communication process and demonstrate knowledge of skills to overcome these.
- Demonstrate increased awareness of forms of communication and social behaviour.
- Identify and use strategies for managing specific contexts for communication, including giving presentations.

Communication Basics

The ability to communicate is an essential life skill and everyone has their own role and attitude that they naturally adapt and develop to suit the different environments they operate in. Now we will take a look at the most essential communication basics that will help you to become a better manager.

Communication Process

Have you ever wondered why some people can communicate so well while others fail to get their message across? What are the elements that must be present in the communication process before it can be successful and effective? Well, communication has been defined as the act of giving, receiving or exchanging information, ideas and opinions so that the "message" is completely understood by both parties. Look at the figure below. The illustration shows clearly that in a communication process, there must be a sender who speaks or sends a message, and a receiver who listens or receives the message.



The sender sends a message with a certain intention in mind. The receiver of the message tries to understand and interpret the message sent. He then gives feedback to the original sender, who in turn interprets the feedback. This process, repeated continuously, constitutes communication.
Clearly, there are several major elements in the communication process – a sender, message, channel, receiver, feedback, context. There is both a speaker's intention to convey a message and a listener's reception of what has been said. Thus, listening skills are just as important as speaking skills in order for communication to be effective.
This means that if you want to get your message across accurately, you need to consider these three things:

- The message;
- The audience or receiver; and
- How the message is likely to be received.

A message is only considered successfully communicated when both the sender and the receiver perceive and understand it in the same way. If this does not happen, then there may be a breakdown in communication, which may ultimately stand in the way of you realising your goals, either personally or professionally.

Factors Affecting Communication

As mentioned before, effective communication is a two-way process but there are a number of factors which may disrupt this process and affect the overall interpretation and understanding of what was communicated. Problems can pop up at different stages of the communication process. These can relate to any of the elements involved: the sender, message, channel, receiver, feedback, and context. It is therefore important to understand some of the factors that affect communication so that you can try to get your message across with minimal misunderstanding and confusion.

Below are some possible problem areas that may turn out to to be barriers to effective communication:

- *Status/Role*: The sender and receiver of a message may be of equal status within a hierarchy (e.g. managers in an organisation) or they may be at different levels (e.g. manager/employee, lecturer/student, business owner/clients). This difference in status sometimes affects the effectiveness of the communication process.
- *Choice of Communication Channels:* Before you choose your communication channel, you should ask yourself whether the channel is appropriate for a particular purpose and the person/receiver you have in mind. Sending messages via inappropriate channels can send out wrong signals and end up creating confusion.
- *Length of Communication*: The length of the message also affects the communication process. You need to be sure that it serves the purpose and is appropriate for the receiver. Is the message too long or too brief?
- *Known or Unknown Receiver:* Whether the receiver is known or unknown to you also plays a major role in determining the effectiveness of your communication. A known receiver may be better able to understand your message despite having insufficient information as both of you probably have common experiences and shared schemata. An unknown receiver, on the other hand, may require more information and time to decode the message.
- *Individual Perceptions/Attitudes/Personalities:* Sometimes, the method of communication needs to take into consideration the receiver's personality traits, age, and preferred style. The elderly and children, for example, have different communication needs and preferences when compared to young adults. Is the receiver of your message a visual, auditory, or kinaesthetic sort of person? How do you think they will react to your message? Can you adapt your communication style to suit theirs?
- *Atmosphere/Noise/Distraction:* Our surroundings can sometimes pose as barriers to effective communication. A noisy place (a party, for instance) usually puts a strain on oral communication as both the sender and the receiver need to put extra effort to get the message across and ensure that it is understood clearly and correctly.

Communication Roles

In all areas of your life, you will play many *different roles in the communications process.* At the highest level within this process, you will either be the person instigating the exchange or the recipient of it.

An *Instigator* will generally be performing one of the following roles that will match the reason why communication is taking place:

- *Communicator*: You have a need to inform an individual about some aspect of their work or you require them to take on a task you need to delegate.
- *Investigator*: The reason for your communication is to find out some information or data that you need to make a decision.
- *Assessor*: You have to assess how well someone, or a group, is performing their role or task.

If you are the *Recipient* then the role you will adopt during the exchange will fall into three broad categories:

- *Recipient*: You need the information or data contained in the communication to ensure that you can complete your task or perform your job.
- *Participator*: Your knowledge and skills are required in a discussion or decision-making process that has mutual benefit to those involved in the communication.
- *Antagonist*: Your viewpoint may be contrary and you want to ensure that everyone in the communication is fully informed to ensure a well-reasoned decision.

With each of these broad roles, you will alter your behaviours and method of communicating to suit the environment and circumstance. But whichever high-level role you find yourself performing you will also need to *actively listen* to the whole of the two-way exchange. Developing the skill of active listening during conversations enables you to avoid misunderstandings, confusion, and misinterpretations. It also ensures that you are always looking at the 'big picture' when communicating.

Perceptual Preferences

You need to be conscious of the fact that different people prefer to receive information in different ways. That is, they may be naturally visual, auditory, or kinaesthetic communicators.

This aspect of communication is especially important when you are delegating a task.

- *Visual* people retain information best when shown what is required. They will put into pictures what they read, hear, or are told.
- *Auditory* individuals will grasp what you mean when they are verbally told. They will use your tone, pitch, and other para-verbal signals to interpret meaning. They struggle to take in what they read unless it is supported by what they hear.
- *Kinaesthetic* people prefer to be given a demonstration of what is needed. They will remember what was done rather than what was said. They are happy to be moving or making contact when communicating.

These categories can also be dependent on the type of task you are asking someone to perform. For example, if a team member is having difficulty with something, then it may be beneficial to use another way of getting the information across, rather than providing more detail using the same communication mode.

This doesn't mean you need to repeat your instruction in three different ways, but you may benefit from using a supplementary form of communication to ensure your message is correctly interpreted.
By communicating in a way that correlates with the individual's innate preferences you will ensure that your message is accurately received and interpreted. You should gather this knowledge as you observe your team perform their tasks and record how well they achieve their objectives.

The key to successful communications and delegation is that you retain control but give the individual the correct tools and support to perform the task. Your role is to focus on the required result and to give constructive feedback when monitoring indicates that more direction is needed.

Communication Principles

Communication is a *complex two-way process* that can involve several iterations before mutual understanding is achieved. Communication takes place in many ways. You can communicate using words, symbols, pictures, graphics, voice, tone, facial expressions, clothing, and body language. Most communication is a combination of these elements. By understanding how to use these elements effectively you can improve the way you communicate and achieve the best outcome for any situation.

Whether speaking formally or informally, addressing a meeting or writing a report, the *basic principles of communication* are as follows:

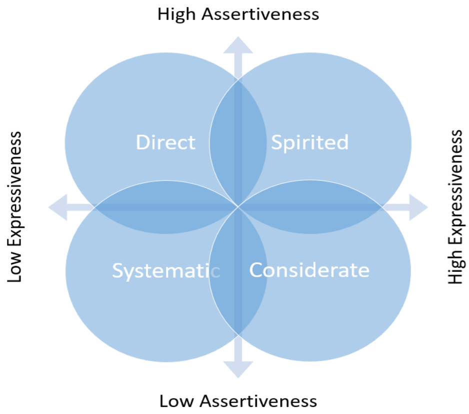
- *Know your audience:* Communication should always be packaged to suit the listener's level of understanding.
- *Know your purpose and topic*: Make it clear whether you are delivering specific information, requesting information, or being social. Be aware of all the facts and details.
- *Anticipate objections and present a complete picture:* Objections often arise due to misunderstandings. Communicate the benefits for both parties. Support your statements with evidence (e.g. statistics or testimonials).
- *Communicate a little at a time, then check the listener understands:* Pause, ask questions, and give the listener an opportunity to ask questions.
- *Present information in several ways:* What worked for one listener/reader may not work for another.
- *Develop practical, useful ways to get feedback*: Feedback is the best way to evaluate the effectiveness of your communication.

Communication Styles

The communication style refers to the choices we tend to make when communicating with others. It involves two basic dimensions: the *assertiveness level* and the *emotiveness level* of our communication. We use different styles depending on with whom we are communicating.

Communication Styles Matrix

There are many different models that describe the ways in which we communicate. But one very useful model is based on the work of Dr. Eileen Russo. Her matrix is displayed in the figure below. It shows that there are two different dimensions in communication styles: the level of expressiveness and the level of assertiveness.



Each quadrant in the figure above represents a different communication style. People can fall anywhere within each quadrant, becoming more uniformly one style over the others as they move further from the center.
Notice that the more *assertive* communication styles tend to 'tell' others what to do. The less assertive communication styles tend to 'ask' others what should be done. The more *expressive* communication styles tend to show their emotions in their face, speech, and tone. The less expressive styles will either not express their emotions or will work to hide them.
The resulting four basic communication styles are shown below. In the following sections, we'll look at the basic characteristics of each communication styles and some things you can do to help you communicate well with each type.

- Low Expressiveness + High Assertiveness = Direct
- High Expressiveness + High Assertiveness = Spirited
- Low Expressiveness + Low Assertiveness = Systematic
- High Expressiveness + Low Assertiveness = Considerate

Direct Communication Style

As indicated in the communication style matrix, people with a direct communication style are highly assertive and not expressive. They tend to tell others what to do instead of asking others what they think should be done, and they will not easily show emotions in their communications with others. Their communication style is meant to be expedient, though others may not always see it that way. They may appear terse and cold to others, who might take their style of communicating personally.
Direct communicators will try to tell you as little as possible before moving on to the next topic – not because they are trying to be evasive, but because they are trying to save time. They won't always stop to listen to others, even if the others have something valuable to contribute. They may seem impatient and overbearing at times, but it's not meant to be personal. They are attempting to focus on results rather than emotions. They will speak their minds, even if it could be off-putting to others.
Don't expect them to talk about their personal lives – they like to keep business and personal issues separate. They don't back down from conflict, and at times could be seen as being aggressive rather than assertive in the way that they express their opinions.

Tips for communicating if you have a direct communication style:

- Make an effort to listen fully to others and avoid interrupting
- Allow time for 'chatting' at the beginning of a meeting
- Recognise that others may feel the need to express their emotions about topics
- Recognise that brainstorming can be helpful and not just a 'time waster'
- Try to communicate your expectations for how a meeting will go – the length of time, the topics to be covered, and the expected results – before a meeting occurs
- Take the time to show your appreciation for others' contributions
- Don't use email for sensitive or complicated topics
- Allow time in your schedule for questions and feedback

Tips for communicating with people with a direct communication style:

- Ask if they have time to talk before jumping in
- Get to the point quickly – don't bore them with lots of background information
- Limit 'chatting' or conversation that is off-topic
- Use short, direct sentences
- Ask for a specific call to action or make a specific request
- Do not speak in the abstract
- Only promise what you are certain you can deliver
- Don't give or ask for information about personal issues unless they initiate it
- Don't sugar coat things – speak plainly

People with direct communication styles are the 'go- getters' in the group. They will work hard and fast and will brook few questions or distractions. These people need to use caution to avoid appearing dictatorial or cold. If you are a direct style, you could probably use some practice with listening skills.

Spirited Communication Style

People with the spirited communication style are very interested in the 'big picture'. They are the dreamers, the inventors, and the innovators in the group. Their communication may be full of grand ideas and hyperboles that tend to be very persuasive to others at first.

However, they are not always very good at discussing the details or the exact steps in the process. They will tend to go off on tangents in their conversations and like to interject anecdotes into their dialogues in order to demonstrate or drive home a point.

Keeping to an agenda is sometimes a challenge for those with the spirited communication style since both time management and remaining focused are challenges for this group. Their written or verbal communication may tend towards the dramatic. While they can be very entertaining, getting them to communicate clearly on specific topics may take the assistance of someone else to guide them through a conversation and keep them on track by bringing them back to the subject at hand.

Tips for communicating if you have a spirited communication style:

- When considering new ideas to share, also consider whether or not you have suggestions on how to put those ideas into action
- Respect agreed-upon agendas and time limits when in meetings
- Try to limit your sharing of personal anecdotes that take the group off-topic
- Make sure you are allowing others to contribute their ideas and suggestions – and that you are listening
- Be certain any requests you make are clear and that you convey the reason for asking
- Communicate your appreciation for others' work and input

Tips for communicating with people who have a spirited communication style:

- Use an agenda with time limits listed for each topic
- Praise them in front of other people
- Learn to gently redirect the conversation back to the topic at hand
- Understand that they may exaggerate
- Challenge them to break down their 'big ideas' into specific outcomes and steps
- Reaffirm with them what they have agreed to do
- Use check-lists or other written reminders as a way to help communicate what needs to be done

People with the spirited communication style love to flesh out ideas, brainstorm, and talk about the big picture – as long as they get to do a lot of the talking! Spirited people can have a hard time nailing down the details in their wonderful ideas. They may also have a hard time sticking to an agenda or to one topic.

Systematic Communication Style

Those with a systematic communication style like to focus on facts and details rather than opinions and possibilities. Expect to use and appreciate logic when you communicate with a systematic. They will appreciate facts and analysis rather than the 'big picture' ideas that have not yet been proved useful.

They may be slower to respond to your communication, as they are probably analysing the situation and constructing a logical, well thought-out response. Charts, graphs, and trends are all useful tools for communicating with systematic people as well.

Those with a systematic communication style are uncomfortable with expressing their feelings about things and do not like conflict. They may tend to shut down communication rather than dealing with emotional or

confrontational situations. If you give them directions, you will need to be very thorough and precise in relaying them.
The more information you can give them, the happier they will be – as long as the information is relevant to the current discussion or is relevant background information.

Tips for communicating if you have a systematic communication style:

- Recognise that not everyone follows linear thought processes and decision-making
- Realise that for good working relationships, consideration for others' feelings is important
- Learn to ask qualifying questions that will help you get the information you need
- Ask others questions about themselves if you want to build rapport
- Make sure you understand the scope of a project so that you don't waste time collecting information that is not going to be needed
- If you need to ask for more time for analysis, be able to explain the benefit of the information you are working on

Tips for communicating with people with a systematic communication style:

- Focus on the facts of the situation rather than individuals' opinions
- Speak with precision and accuracy rather than generalisations
- Be organised, on time, and on topic when you communicate with them
- Give logical reasons for your actions and for what you ask of them
- Allow them time for research and analysis before decision-making
- Avoid personal topics unless they open the conversation

People with a systematic communication style will focus on facts over opinions. Communication with tangible evidence is best for systematic. They will likely be uncomfortable expressing feelings and will tend to avoid confrontation.

Considerate Communication Style

Those with the considerate communication style are very concerned about the feelings of others. They want to please other people and to be included in their peer group. They like to work with others, help others, and connect to others on a personal level. If there is conflict in your group, they will be the ones to attempt to mediate it.
They want everyone to have the chance to speak their minds, have their turns, and receive recognition for their contribution. They are natural trainers and counsellors and enjoy helping others to succeed. They will encourage group collaboration and communication, though they are not always inclined to speak their own minds.
This is the major communication challenge for those with the considerate personality style – they may be reluctant to share an opposing opinion, even if it's important information because they are concerned about keeping the peace and being liked.
They are also inclined to take direct communication as a personal matter. It's difficult for them to separate other peoples' opinions about a topic from their opinions about them, and so may feel that an opposing opinion is due to not liking them. There is also the possibility that they will be talked into something in order to preserve the peace rather than standing their ground.

Tips for communicating if you have a considerate communication style:

- Recognise that other people's opinions about a topic are separate from their opinions about you
- Realise that not everyone is comfortable discussing personal topics with work colleagues; allow others to open personal topics before asking questions
- Respect your own opinion as you respect others' opinions
- Recognise that you don't have to be friends with everyone, but you should treat others and be treated professionally

Tips for communicating with people who have a considerate communication style:

- When possible, reassure them that your opinions are not personal
- Express a sincere interest in their feelings, thoughts, and personal life
- Encourage them to ask questions and share their opinions
- Let them know that you appreciate their help
- Resolve any conflicts quickly

People with a considerate communication style will be very interested in listening and in finding out how you and others are doing. They will want everyone to have a chance to speak but might refrain from expressing their own opinions if they think it will displease others.

Examples

It will take some time and practice to learn exactly what will work in communicating with the people in your workgroup. Here are a few examples that will help you to get started:

Direct Style:

When communicating with someone who has a direct communication style, the key is to get to the main point of your communication as soon as possible and to do so in the most efficient manner possible. The first example below shows the type of communication that will not work with someone who has a direct communication style:

Hi Jane,

I heard from Alex that you landed a new large business account yesterday. He said that you did an excellent job in explaining the company's benefits to the customer and that you were very professional. Alex also said that the customer asked for a quote on a new phone system for his existing offices. Have you thought about how you will proceed? Let me know if I can help you get the quote together or if you need any ideas on the configuration. I'd like to get the quote to them later this week if you think you can manage it. That way we would have a good chance of getting the order in for this month's numbers.

What is the main point of the communication? What is the requested action? How much of the communication is superfluous information? A person with a direct communication style will not necessarily glean what you want them to do or by when. They will appreciate the accolade, but they won't appreciate the personal references or information.

Hi Jane,

Great job on the new account. I'd like to meet for 10-15 minutes tomorrow to discuss strategy and timing. Please let me know if you'd prefer to meet at 1:00, 1:30, or 2:00 pm.

See the difference? The second text still communicates approval and makes a request, but it does so in a much clearer way. If it seems curt to you, don't worry – the direct style person will appreciate it. It's a perfectly professional communication and there is much less chance for misunderstanding.

Spirited Style:

When communicating with someone who is spirited, you will find that consistency is important. If you can get them used to a particular format or method of communication, it will be easier to keep them communicating. This doesn't mean always choosing email or always choosing telephone. But it does mean always using follow-up questions or checking in on a regular basis to see if you are both still on the same page.

Also, remember that a person with a spirited style may need more time to brainstorm and discuss ideas. If you want them to come to the table with decisions already made, be sure to get their buy-in beforehand. Otherwise, they may still find the need to discuss something that you already felt was decided.

Here's an example of good written communication to a spirited person.

Hi Sally! I thought your presentation yesterday was fantastic! I enjoyed the way that you had the audience participate in the session. I think you would be a great choice for the educational component at our next board meeting. The Board of Directors needs some information about local economic trends, but in a way that is not too boring or complicated. Would you like to have lunch to discuss it? I'm free on Thursday or Friday this week. Let me know if either of those days will work for you.

Why would this communication work for a spirited person? It is enthusiastic, complimentary, and would be flattering to Sally. She will be pleased that you noticed her first presentation and more pleased that you would like her to repeat it.

Systematic Style:

When you need to communicate with a person who has a systematic communication style, remember that facts are what to emphasise. Opinions are not going to be very effective. Use logical, linear thinking and communicate in the same way and let data do the talking for you as much as possible. Have charts? Know some trends? Have examples to show how something works? All of these can be useful in communicating with a systematic person.

When communicating with a person who has the systematic communication style you should avoid phrases like:

- It's my opinion that…
- I believe that…
- I feel that…

Instead, try using phrases like:

- The data shows that…
- The trends show that…
- The results of the test show…

Considerate Style:
To best communicate with someone who is a considerate communication style, remember that the person's feelings are going to be important. They will listen best when you make them feel as if their feelings are important to you, their opinion is important to you, and that you value them as a team member and a contributor.
If you have something to communicate that will perhaps be perceived as a critical, you will need to tread cautiously in order to be effective. Let the person know that you appreciate their work, and name the aspects that you find valuable and good. Then note the changes that need to be made, explaining the reason for the changes as much as you can. Whenever possible, use requests instead of imperatives in discussing the needed changes.

Communication Tips

In this chapter, we will discuss several general tips for improving your communication skills. So whether you're looking to get ahead in the job market — or within your company — your ability to communicate will make you stand out from the crowd!

Wording

You can really undermine your relationships and generate negative reaction by choosing the wrong words at the workplace. It is important to be sensitive to how different words will be received by our listeners.

- Always: A word like 'always' can easily be perceived as an attack on the listener. When you are trying to improve a situation, it's much better to choose a softer approach, looking for a win-win solution.
- Never: Saying to someone, "You are never on time!" will not be as effective as telling your employee, "I've noticed you've not been getting to work on time a lot lately. Are you having any difficulties we can discuss?" They won't feel attacked, and you can take the conversation
- from there.
- Should: This is another dangerous word. For example, "You should have brought an umbrella!" That's a bit ridiculous when you're soaking wet already. Even when people ask for advice on what they should do, it's more motivating to use empowering language like, "You might want to try…" or, "Perhaps you can…" rather than "you should."
- But: The word but can be seen as a negative. It can erase everything positive that came before it, and the listener will focus on the negative.
- Compare: "This model is very popular, but it only does 35 miles per gallon… This model is very popular, and it does 35 miles per gallon." You can immediately see how positive the second sentence sounds, and how there is no change in the information, only in the attitude. Sometimes it will be essential to use 'but'; just be aware of its negative implications and consider if an alternative would be more appropriate.
- Maybe: Always think carefully before using weak words like 'try', 'maybe', 'perhaps'. They don't give any sense of commitment, only uncertainty. "I'll try to get this finished today," gives you an excuse if you somehow can't work on it. ("Well, I tried, but it didn't work!") "Maybe I'll drop over to your place is evening." This will leave me wondering whether you will or not.
- You must: Phrases like "You have to…", You must…", "You'd better…" are very demanding. They make people feel like they have no choice.
- Can't: Negative words like 'no', 'can't', and 'don't' shut down discussions and stir up negative feelings. It's best to avoid them where possible.

Always and never are two words that you should always try never to use! Hmm! It's true, though. Imagine you say to a colleague, "You never get to work on time." She might reply with, "Two Wednesdays ago, I was 5 minutes early!"

Body Language

Do you twist your hair or play with your rings? This could imply that you're nervous or not focused. Do you point a finger at the other person's chest? This implies aggression. Do you slouch? This implies a lack of confidence. Do you hop from foot to foot when talking to your manager? This shows a lack of confidence too.
Even if you've structured your message well, you could blow it completely if your posture, gesture, and facial expressions don't support your message. In communication, your body language can be one of your best assets, as long as you use it well. To start with, be aware of what your body is doing and saying.

By making some minor adjustments in your posture, your gestures and your facial expressions, you will help yourself become a much better communicator. Your face and your body language can be two of the greatest tools in your communication toolbox. Use them well to help you come across as a confident, relaxed communicator.
Here are four behaviours you may want to work on:

- *Slouching*: Some big, comfortable chairs are very easy to slouch in, but when you do this, you may look too relaxed and informal. People may not take you seriously. If you want to come across as an assertive, confident communicator, it's best to sit up, and stand up, straight.
- *Distracting habits*: Please avoid annoying distractions like twisting your hair, playing with rings, or clicking your pen they will make the listener pay attention to your habits, and form judgments about them, rather than focus on your message.
- *Blank looks:* A blank look is one that shows no expression or emotion. The only time blank looks will help you is when you are playing poker! When trying to convey an important message, blank looks will make you appear indifferent. Use your face to show expression both when receiving and giving messages.
- *Work face:* When you're at your desk concentrating on your work, your brow may be furrowed and your lips pursed. If your assistant walks in at this point, and you look up still wearing this 'work face', he might think your face is saying, "What the heck do you want? How dare you interrupt me!" If you think you might be guilty of wearing your work face, just take a moment to relax and adopt an open expression when people knock on the door. This way, people will feel more comfortable coming in to talk to you.

Listening Skills

Thanks to email, instant messages, chat rooms, social media, and other tools brought to life courtesy of technology, we all have a whole lot more to learn these days if we are to communicate effectively with others.
It used to be that people only needed to sharpen their communication skills for phone conversations and face-to-face appearances. For many, these scenarios were bad enough. Nowadays, even in small groups and one-to-one settings, effective communication is getting tougher.
Fortunately, there are some very simple tips that anyone can use to help them on the road to clear, effective communication. Whether addressing a large crowd, talking on the phone, or working one-on-one, mastering these three essential skills will put you well on your way to becoming a much better communicator:

- *Listen*: Communication is a two-way street. Half the battle is learning how to really hear, process and respond to what others are saying. A good listener takes a keen interest in his audience, uses appropriate verbal and non-verbal door-openers, and asks questions to encourage conversation.
- *Repeat*: When you paraphrase something in a different way to how it was delivered to you, you're clarifying your understanding and stimulating further discussion.
- *Reflect*: Too many people open their mouths and speak without thinking. Before you let the words escape, think carefully. Slow down to make sure you have given appropriate consideration to what you are about to say

Written Communication

In today's world of rapid-fast communication via texts and emails, most of us would rather shoot off a written message than make a phone call. It's fast, efficient, and it provides a nice document trail for our work records. And of course, like all other communication skills, good writing skills can be learned.

Writing Process

Successful written communication requires careful thought and planning. It should contain comprehensive information about a specific subject and yet be clear, correct and easy to read.
A well-written piece of work requires you to pay attention to the following three stages in the writing process: planning, writing, and editing.

Planning: To write a good report, you need to plan what you want to say. After you have decided on what you want to say, list down all the points and arrange them in a logical and suitable sequence. This approach will ensure the clarity of your message and help you to avoid omitting relevant details.
Writing: The writing stage requires careful execution. It includes a pre-writing stage where you gather all the information necessary to ensure that there is substance to your writing. Start writing in simple and plain English and move from something concrete to something more abstract and expressive.
In order to improve your writing skills, you need to practice writing in the target language every day until you are able to express yourself clearly and meet the needs of your reader. Once you start writing, the words, sentences, paragraphs, and lay-outs become writing tools which you can use to convey your message concisely, courteously, and confidently.

Adopt a plain, straightforward style when writing. This makes your work easy to understand and reduces the chances of misunderstanding arising from ambiguity.
Editing: The third stage in the writing process is editing. It is crucial to check for grammatical errors and ensure that there is smooth language flow. The longer the report, the more editing is usually required. It can be useful to get someone else to read through the written piece for you.

Sebranek, Meyer and Kemper (1996) summed it up in a nutshell when they say that writing is like "…basketball and juggling, it is not a God-given mysterious talent given only to a chosen few but, rather, a skill that gets better with practice, practice that involves increased challenges and, therefore, risk."

Pitfalls to Avoid

Basically, there are four types of main errors that you should avoid in written communication:
*Confusing Language***:** Confusing language refers to words that mislead the reader and cause a communication breakdown. It may also result in barriers being erected between the writer and the reader. Avoid words which are ambiguous, bombastic, vague, sexist, exaggerated, inflated and archaic. Remember to write in plain, good English.
*Verbosity***:** Verbosity means the use of too many words, so much so that they interfere with understanding. If verbosity persists, it may antagonise, confuse, and bore the reader.
Check out this example:

- The stability and quality of our financial performance will be developed through the profitable execution of our existing business, as well as the acquisition or development of new businesses. (Too long, too wordy, passive voice.)
- We will improve our financial performance not only by executing our existing business more profitably but by acquiring or developing new businesses. (Better, shorter, active voice.)

Poor Sentence Structure: Poor sentence structure often leads to fragmented writing and choppy sentences that impede understanding. Try to keep your sentence(s) short and concise to ensure that they are correct, logical and easy to understand. Word order is important for meaning. Remember that words should be structured in such a way that those which precede should be in accordance with those that follow.
Information Overload: Information overload means giving so much information until you feel overwhelmed and confused. This may cause frustration and cast doubts on the writer's credibility. Therefore, as a writer, you must decide on the type of information required and present this to produce a clear, concise and relevant piece of written work.

Email Writing Skills

An email is a core tool for business communications, but a survey by Sendmail Inc. found that communication by email has caused tension, confusion, or other negative consequences for 64 percent of working professionals.
So, how can you avoid your emails doing this? And how can you write emails that get the results you want? Here are six strategies you can use to ensure that your use of email is clear, effective and successful:

Don't over-communicate by email:
One of the biggest sources of stress at work is the sheer volume of emails that people receive. So, before you begin writing an email, ask yourself: "Is this really necessary?" As part of this, you should use the phone or IM to deal with questions that are likely to need some back-and-forth discussion.
Make good use of subject lines:
A newspaper headline has two functions: it grabs your attention, and it summarises the article so that you can decide whether to read it or not. The subject line of your email message should do the same thing. A well-written subject line like the one below delivers the most important information, without the recipient even having to open the email.

- Bad example subject line: Meeting
- Good example subject line: PASS Process Meeting – 10 a.m. February 25

Keep messages clear and brief:
Emails, like traditional business letters, need to be clear and concise. Keep your sentences short and to the point. The body of the email should be direct and informative, and it should contain all pertinent information.
Be polite:
People often think that emails can be less formal than traditional letters. But the messages you send are a reflection of your own professionalism, values, and attention to detail, so a certain level of formality is needed. Unless you're on good terms with someone, avoid informal language, slang, jargon, and inappropriate abbreviations. Recipients may decide to print emails and share them with others, so always be polite.

Check the tone:
When we meet people face-to-face, we use the other person's body language, vocal tone, and facial expressions to assess how they feel. Email robs us of this information, and this means that we can't tell when people have misunderstood our messages. Your choice of words, sentence length, punctuation, and capitalisation can easily be misinterpreted without visual and auditory cues.
Proofread:
Finally, before you hit "send," take a moment to review your email for spelling, grammar, and punctuation mistakes. Your email messages are as much a part of your professional image as the clothes you wear, so it looks bad to send out a message that contains typos.

Make your emails concise and to the point. Only send them to the people who really need to see them, and be clear about what you would like the recipient to do next. Remember that your emails are a reflection of your professionalism, values, and attention to detail. Try to imagine how others might interpret the tone of your message.

Verbal Communication

There are a large number of different verbal communication skills. They range from being able to speak clearly to presenting in front of a crowd to discussing effectively on the phone. This chapter provides a summary of these skills and shows you how to improve yours.

Clarity

If you work in a multi-cultural environment, you've probably had experiences where you've wondered, "Did he say 'thought' or 'taught'? Was that word, 'pirate' or 'pilot'? Did she really say 'sheet' or was it something else?" The way you pronounce your words and the tone of voice you use will have an impact on the effectiveness of any message. Just as using the right words is essential, it's also important to consider your voice and your tone if you are to be understood and get your message across effectively.
Here are four simple steps to help you increase your vocal clarity:

- *Slow down*: So many people speak too quickly and almost in a monotone. Please slow down. It will give you more confidence, not less.
- *Keep your language simple*: Don't use big words, thinking you'll impress people. You won't. Simple is better.
- *Take time to e-nun-ci-ate*: Really articulate every word. It may feel rather unnatural to you at first but stick with it. Your comfort level will rise, and your clarity will improve. This also means your listener's comfort level will increase.
- *Check for understanding*: Ask your listeners if they have understood your pronunciation, since they may hesitate to tell you.

Presentation Skills

How can you make a good presentation even more effective? Whether you are an experienced presenter, or just starting out, these seven tips should help you to improve:

Focus on your audience's needs:
Your presentation needs to be built around what your audience is going to get out of the presentation. As you prepare the presentation, you always need to bear in mind what the audience needs and wants to know, not what you can tell them.
Keep it simple: concentrate on your core message:
When planning your presentation, you should always keep in mind the question: What is the key message (or three key points) for my audience to take away? You should be able to communicate that key message very briefly. Some experts recommend a 30-second 'elevator summary', others that you can write it on the back of a business card, or say it in no more than 15 words.
Smile and make eye contact with your audience:
This sounds very easy, but a surprisingly large number of presenters fail to do it. If you smile and make eye contact, you are building rapport, which helps the audience to connect with you and your subject. It also helps you to feel less nervous because you are talking to individuals, not to a great mass of unknown people.
Remember the 10-20-30 rule for slideshows:
This is a tip from Guy Kawasaki of Apple. He suggests that slideshows should:

- Contain no more than 10 slides;
- Last no more than 20 minutes; and

- Use a font size of no less than 30 points.

This last is particularly important as it stops you trying to put too much information on one single slide. This whole approach avoids the dreaded 'Death by PowerPoint'.
Tell stories:
Human beings are programmed to respond to stories. Stories help us to pay attention, and also to remember things. If you can use stories in your presentation, your audience is more likely to engage and to remember your points afterward. It is a good idea to start with a story, but there is a wider point too: you need your presentation to act like a story. Think about what story you are trying to tell your audience, and create your presentation to tell it.
Use your voice effectively:
The spoken word is actually a pretty inefficient means of communication because it uses only one of your audience's five senses. That's why presenters tend to use visual aids, too. But you can help to make the spoken word better by using your voice effectively. Varying the speed at which you talk, and emphasizing changes in pitch and tone all help to make your voice more interesting and hold your audience's attention.
Use your body too:
It has been estimated that more than three-quarters of communication is non-verbal. That means that as well as your tone of voice, your body language is crucial to getting your message across. Make sure that you are giving the right messages: body language to avoid includes crossed arms, hands held behind your back or in your pockets, and pacing the stage. Make your gestures open and confident, and move naturally around the stage, and among the audience too, if possible.

If you can bring yourself to relax, you will almost certainly present better. If you can actually start to enjoy yourself, your audience will respond to that and engage better. Your presentations will improve exponentially, and so will your confidence. It's well worth a try.

Telephone Communication Skills

When we speak on the telephone, we cannot use hand gestures or facial expressions to get our meaning across. We only have our voice. Have you ever considered how your voice sounds to others?
Have you told someone, "Hey, you should be on the radio!"? There's often a special voice type that works well on the radio, isn't there? They tend to speak with positive energy, with warmth, and with clarity. They know that if they don't, you might switch to another station.
To a certain extent, the same goes for you in your business. You will benefit from being very clear and pleasant to listen to over the phone. People will pick up the phone more willingly, and stay on the phone longer when they like how you speak to them.
Here are some key things to focus on when improving your telephone voice:

- *Pitch and tone*: It's very uncomfortable to listen to someone who speaks in a very high pitch. Speaking in a lower pitch can be more comfortable, and can give you more authority. Speak in a friendly, informal tone, to help build the relationship.
- *Rate*: Slow down your normal rate of speaking on the telephone to give your listener a chance to take in what you say. Remember that people need time to think on the telephone too, so don't feel obliged to fill every gap.
- *Inflection*: Use correct emphasis to make your meaning clear, with a rise and fall in your voice.
- *Enunciation*: Don't mumble or slur your words. Make an effort to pronounce each word carefully.
- *Energy*: A lot of your energy is lost over the telephone lines. This means you need to express more energy on the phone than when you are face to face.
- *Smiling*: Say this sentence without smiling, "This is Martha from Sales. How can I help you?" Now say it again with a real smile on your face. I'm sure you had more energy and even more intonation in your voice that second time around. Even if people can't see you smiling, they can hear it.
- *Attention*: Give them your full attention. Make a commitment to the caller. Don't talk and type. Don't talk and eat.

Tool: RESULT Principle

The RESULT principle is a great summary of everything you have learned in this course and an easy-to-use tool to use in real business situations. It is a systematic approach that can help you to improve your communication skills and become an effective communicator regardless of the situation you are in.
The six components of the RESULT principle are:

Reason: All communication must be for a reason and the most effective dialogues will have a sole purpose or objective that the instigator wants to achieve as a result of the communication. The more thought you put into

why you want to open up this process the more objective and focused your purpose will be. The most productive communications have a single objective ensuring clarity and ease of comprehension. Any conversation, discussion, or meeting can have many exchanges but focusing on a single objective will ensure your success.
Environment: In your management role you will find yourself needing to communicate in a wide variety of situations – for example, with your team, colleagues, management, stakeholders, suppliers, etc. For your communications to be effective it is essential that you define the nature of each situation and adapt your message to the environment. This preparation enables you to adopt the best style of communication to suit your approach and prepare for potential arguments or problems.
Specific: You must now specify exactly what it is you want or need from the other persons. You must make sure that you have any supporting information, background, or data that guarantees that your message and exchange will have clarity. In some contexts, you will need to break down your supporting information into manageable chunks. For example, executives want to hear the financial and business aspects of a project while members of a project want to hear how it is progressing.
Understanding: Whatever form of communication you need to conduct, an essential part of the process is ensuring that the recipient actually correctly understands the message you want to give them. You can't afford to make any assumptions: you need to get confirmation from the recipient that they have the same understanding as you about what a situation may be and what the required action plan is.
Listen: You will only gain this level of 'true' understanding if you actively listen to what is being said and observe the behaviours of those involved in the communication. Active listening is a communication technique, which requires the listener to feedback what they hear to the speaker, by way of re-stating or paraphrasing what they have heard in their own words, to confirm the understanding of both parties.
Timeframe: The final aspect of the RESULT principle is concerned with the amount of time you have to prepare for and conduct the actual communication. Not all exchanges occur in situations where you have all the time you want. However much time you have, make sure that you use it effectively by following these principles. The better prepared you are the more effective and productive your communications will be.

Conclusion

As you learned in this course, good communication skills are essential to your management career. Communication is a *two-way process* and it is only successful when all of the parties involved have the same understanding of what has been communicated.
When you communicate well…

- you are able to build rapport with others,
- you come across as organised and efficient,
- you avoid misunderstandings,
- you can give clear instructions or explanations, and
- other people trust and respect you.

Each person's *communication style* is a unique combination of their own innate skills and those learned both formally and through experience. What makes some people better than others at communicating is their ability to adapt their style to suit the message and the environment. Most people have a preferred communication style that describes how they behave in most of their communications. There are four basic styles and each one is useful in its place. However, a skilled communicator uses each of these four approaches depending on which one is the most appropriate at the time.
People also have preferences when it comes to *receiving information* and it is important to understand these when delegating work or giving instructions because using a supplementary form of communication can ensure that your message is correctly interpreted.
Effective communication depends on your ability to read the attitude of the other person or group you are communicating with. You can do this by observing their *body language* and using *active listening* to make sure that you really do understand their attitude and reaction to your message.
The *RESULT principle* can help you to improve your communication skills. This acronym stands for Reason, Environment, Specific, Understanding, Listen, and Timeframe. As well as having an understanding of the RESULT principle, there are certain barriers to communication that you need to be able to identify and overcome. The key to success is to ensure that communication is a *two-way interactive process* and that both parties understand each other *clearly.*

PROBLEM SOLVING SKILLS

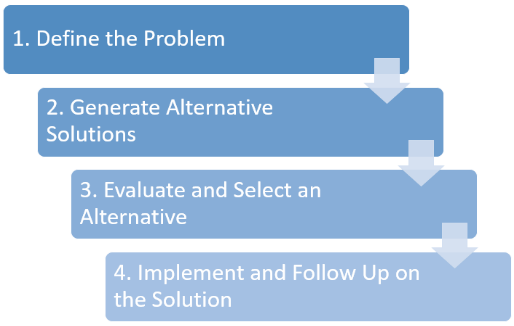
Introduction

Welcome to Problem-Solving Skills!
Two generations ago, you might have expected to have your working life mapped out and the knowledge you left school with was probably largely still relevant by the time you retired.
In the 21st century, we live in very different times. Change is accelerating to the point that a learner may need to prepare for a career that has not yet been invented. Technology has changed the way we work, the way we live, the way we play, and the way we learn. We have never lived like this before and are finding new solutions to problems that have never arisen before.
The ability to solve problems has become a vital skill. We need to be able to face new problems, confident in our ability to find workable solutions. We need to possess both logical and creative problem-solving skills to succeed in today's business world.
This course outlines different problem-solving tools that can be used to look at a particular problem from different perspectives. This will help you with finding solutions that were not immediately obvious.
We will also describe techniques that bring structure to the decision-making process. These techniques can be used in isolation or can be combined in order to make rational decisions.

When employers talk about problem-solving skills, they are often referring to the ability to handle difficult or unexpected situations in the workplace as well as complex business challenges. Organisations rely on people who can assess both kinds of situations and calmly identify solutions. Problem-solving skills are traits that enable you to do that. While problem-solving skills are valued by employers, they are also highly useful in other areas of life like relationship building and day-to-day decision making.

The Four-Step Model

Problem-solving is the act of defining a problem, determining the cause of the problem, identifying, selecting alternatives for a solution, and implementing a solution. In order to effectively manage a successful organisation, leadership must guide their employees and develop problem-solving techniques.
Finding a suitable solution for issues can be accomplished by following this four-step problem-solving process:



1. Define the Problem
Diagnose the situation so that your focus is on the problem, not just its symptoms. Helpful problem-solving techniques include using flowcharts to identify the expected steps of a process and cause-and-effect diagrams to define and analyse root causes. You should begin by reviewing how processes currently work (i.e., who does what, with what information, using what tools, communicating with what organisations and individuals, in what time frame, using what format).

- Consult each faction involved for information.
- Determine in which process the problem lies.
- Avoid trying to solve the problem without data.

2. Generate Alternative Solutions
Postpone the selection of one solution until several problem-solving alternatives have been proposed. Considering multiple alternatives can significantly enhance the value of your ideal solution. Brainstorming and team problem-solving techniques are both useful tools in this stage of problem-solving.

- Include all involved individuals in the generating of alternatives.

- Specify short- and long-term alternatives.
- Seek alternatives that may solve the problem.

A common mistake in problem solving is that alternatives are evaluated as they are proposed, so the first acceptable solution is chosen, even if it's not the best fit. If we focus on trying to get the results we want, we miss the potential for learning something new that will allow for real improvement in the problem-solving process.

3. Evaluate and Select an Alternative

Skilled problem solvers use a series of considerations when selecting the best alternative. They consider the extent to which a particular alternative will solve the problem without causing other unanticipated problems.

- Evaluate all alternatives without bias.
- Evaluate both proven and possible outcomes.
- State the selected alternative explicitly.

4. Implement and Follow Up on the Solution

Leaders may be called upon to direct others to implement the solution, "sell" the solution or facilitate the implementation with the help of others. Involving others in the implementation is an effective way to gain support and minimise resistance to subsequent changes. Regardless of how the solution is rolled out, feedback channels should be built into the implementation. This allows for continuous monitoring and testing of actual events against expectations.

- Plan and implement a pilot test of the chosen alternative.
- Gather feedback from all affected parties.
- Establish ongoing measures and monitoring.

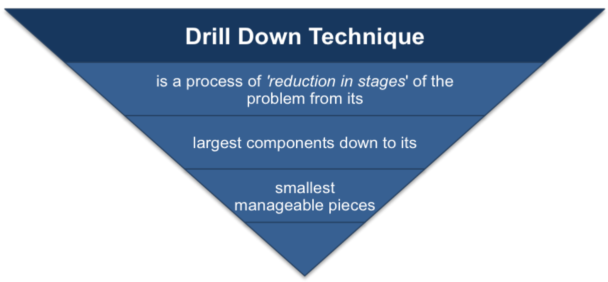
Overall, the Four-Step Model is a simple and reliable way to solve a problem. Using a creative, analytical approach to problem-solving is an intuitive and reliable process. It enables a thorough investigation of the problem and solution search. It involves implementers and users, and finds a justifiable, monitor-able solution based on data.

Tools and Techniques

You won't be able to become an outstanding manager without the right toolbox. In this chapter, we will introduce the most important key problem-solving tools and techniques: The Drill-Down Technique, Four Frame Model, CATWOE Analysis, 5 Whys Method, and Cause-and-Effect Analysis.

Drill Down Technique

In complex organisations problems are inevitable. Successful organisations take the time to identify these complicated problems and plan a practical resolution as soon as possible. The *Drill Down Technique* is a popular approach to problem-solving in complex organisations. As its name suggests you break down a complex problem into its various components into small practical pieces that enable you to identify a resolution.



To use the drill-down method successfully, you are going to need to have a plan. To start, write down the problem that you are facing in big letters at the top of the page. Try to sum up the problem in just a word or a short phrase, even if it is complicated in nature. This will be your starting point, and the rest of the drill-down process will take place from here.

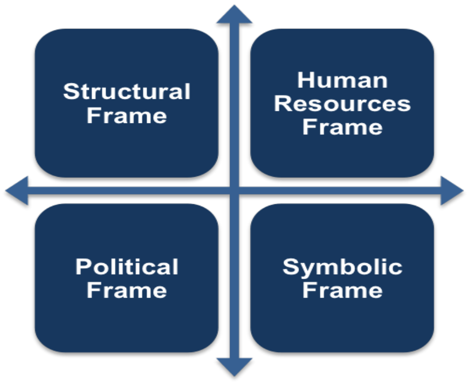
Next, you are going to break down the problem into three to five smaller issues that make up the big problem. These points shouldn't be all the way down to the micro-level just yet, but rather they should be just one 'step' below the big problem itself. Once you have those points in place, work your way down another level to highlight a new list of problems that you need to address. This process will continue until you simply can't drill down any farther. Once you have reached what you consider to be the bottom of your chart, you will be finished and you can begin to look for solutions among what you have created.

Drilling down the big problem that you are facing into a variety of smaller pieces is likely to lead you to some surprising results. For one thing, you are going to see that there is a lot more to this problem than you initially believed. Keep on drilling down until you have identified all of the factors contributing to the original problem.
These methods don't necessarily offer a shortcut to a solution, but it really isn't a shortcut that you should be looking for – instead, you should be looking for a meaningful answer to a major problem that is threatening your business. Get to the heart of the problem, and you will get down to what it is that has been plaguing your company.

Drill down is a simple technique for breaking complex problems down into progressively smaller parts. If you use this method, keep on drilling down until you have identified all of the factors contributing to the original problem.

Four Frame Model

The *Four Frame Model* is a concept that divides up any given organisation into 'four frames' – with the goal of understanding these organisations better when they are divided up in this manner. Lee Bolman and Terry Deal outlined their Four-Frame model in 1991. They stated that leaders and good managers should look at and approach organisational issues from four perspectives, which they called 'frames'.
Organisations are extremely complicated entities, with a potentially huge number of personalities, motivations, capabilities, limitations, and more at play. If leaders work with only one frame, they risk being ineffective. The Four Frames outlined by Bolman and Deal are: Structural, Human Resource, Political, and Symbolic.



Each of these frames plays a vital role in understanding the whole of an organisation. If you were to look at just one or two of these frames on their own, the picture would not be clear and you would not necessarily have an accurate image of what the organisation is doing today, or what it is capable of doing in the future. Therefore, if you are going to commit to using this model in the analysis of your own organisation, you need to commit to using each of the frames in a meaningful way.

Structural	This frame focuses on the obvious 'how' of change. It's mainly a task-orientated frame. It concentrates on strategy; setting measurable goals; clarifying tasks, responsibilities and reporting lines; agreeing metrics and deadlines; and creating systems and procedures.
Human Resource	The HR frame places more emphasis on people's needs. It chiefly focuses on giving employees the power and opportunity to perform their jobs well, while at the same time, addressing their needs for human contact, personal growth, and job satisfaction.
Political	The Political frame addresses the problem of individuals and interest groups having sometimes conflicting (often hidden) agendas, especially at times when budgets are limited and the organisation has to make difficult choices. In this frame you will see coalition-building, conflict resolution work, and power-base building to support the leader's initiatives.
Symbolic	The Symbolic frame addresses people's needs for a sense of purpose and meaning in their work. It focuses on inspiring people by making the organisation's direction feel significant and distinctive. It includes creating a motivating vision, and recognising superb performance through company celebrations.

Bolman and Deal proposed that a leader should see the organisation's challenges through these Four Frames or 'lenses', to gain an overall view, and to decide which frame or frames to use. The leader may use one frame (implying a behavioural approach) for a time, and then switch to another. Or instead, the leader might combine and use a number of frames, or all four, at the same time.

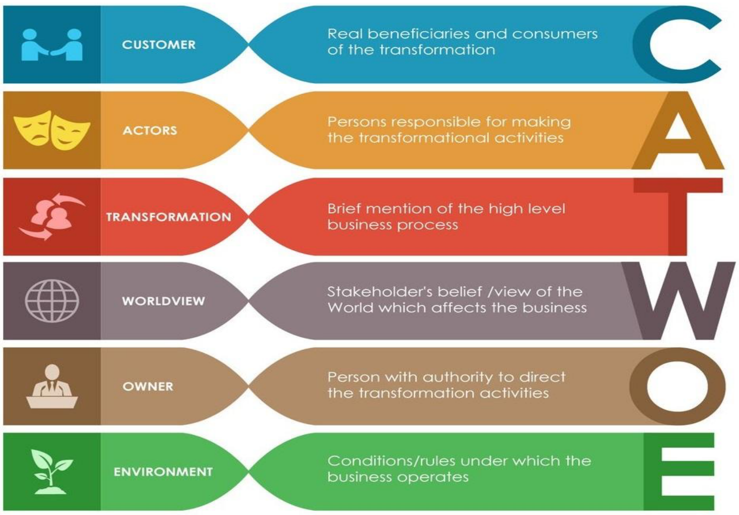
A crucial aspect of Bolman and Deal's model seeks to avoid the temptation for leaders to become stuck, viewing and acting on conditions through one lens or frame alone.
Bolman and Deal assert that because no frame works well in every circumstance, then a leader who sticks with one frame is bound eventually to act inappropriately and ineffectively. Instead, it is the leader's responsibility to use the appropriate frame of reference, and thereby behaviour, for each challenge.

Let's take a look at three short examples:

- Where a leader ascertains that the biggest problem in a group is *lack of motivation,* the leader should probably adopt a Symbolic and/or Human Resource approach.
- If the main group challenge is instead *confusion around responsibilities,* then the leader will be more successful in adopting Structural and Political orientation.
- If the group is experiencing *uncertainty about direction*, then Symbolic and Political leadership behaviours are more likely to produce effective results.

The Four Frames are an effective tool in large part because of how it forces you to look at your company or business from a variety of different angles. Rather than seeing things the same way over and over again – and coming to the same conclusions as a result – you are going to need to see things from a unique angle when you work through the Four Frames.
As long as you commit to the method and give it your full attention, you should come away with a far greater understanding of the organisation as a whole.

CATWOE Analysis
CATWOE Analysis is a method of problem-solving that asks you to look at an issue from six unique perspectives. CATWOE is an acronym that stands for Customers – Actors – Transformation process – World view – Owners – and Environmental constraints. The CATWOE Analysis makes it possible to identify problem areas, look at what a company wants to achieve, and which solutions can influence the stakeholders.



To help you better understand how each of these six elements can come into play with regard to problem-solving, we are going to work through them one at a time below.

- *C – Customers***:** Generally, these are the organisation's customers. They are users and stakeholders of a system. The first step in the CATWOE Analysis is to identify the customers and understand how the process or system influences them.
- *A – Actors:* The actors are usually the employees within an organisation. They ensure that a transformation process happens. They're responsible for carrying out work and are involved with the implementation of changes in the system.
- *T – Transformation Process:* Transformation is the change that a system or process leads to. It's the process in which input (including raw materials and man-hours) is transformed by an organisation into output (such as a final product or solution to a problem).
- *W – World View:* This is about the 'bigger picture' and considers the different stakeholders and interested parties from the environment surrounding an organisation and the influence they can have. Stakeholders often have different approaches to the same issue, with conflicting interests.

- *O – Owners:* This usually refers to the owner, entrepreneur or investor of an organisation, who wants to make changes and who decides whether a project should start or stop. As decision-makers, they have the highest authorities.
- *E – Environmental Constraints***:** In contrast with World view, this is about the actual environmental elements that may influence the organisation and can limit or restrict the system. Examples include ethical boundaries, regulations, financial constraints, and environmental factors.

A CATWOE Analysis provides insights into problems and the different perceptions that different audience groups have to come to solutions. A CATWOE Analysis enables you to gather all different standpoints in a common platform.

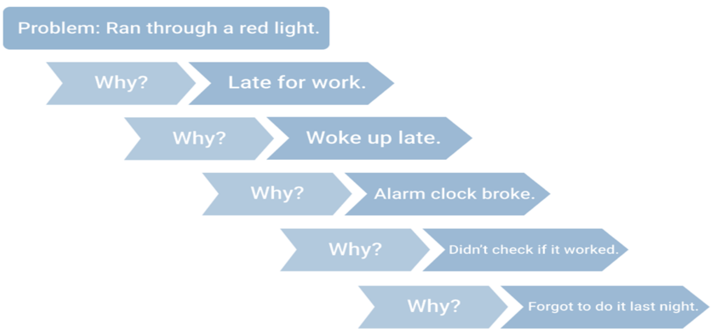
For example, an airport wants to reduce noise pollution that occurs when planes land on the runway. We can analyse that process with the CATWOE framework:

- Customers: Airlines and their employees will be affected by the change.
- Actors: Air traffic controllers and pilots will effect the changes.
- Transformation Process: By reducing speed before landing, airplanes won't have to brake as long on the runway and can decrease noise. To do so, different signals and instructions are given by air traffic control to the aircraft in the air.
- Owners: Airline companies and the airport have to implement the change.
- World View: The house owners near the airport, the aircraft owners, and airport management may all have different viewpoints based on their individual interests.
- Environment: The density of air traffic, weather conditions, geographical features, runway slots, and competition from other airports all influence the approach.

The CATWOE Analysis is used to identify and solve business problems that often involve multiple and conflicting interests. By considering all perspectives and standpoints, it offers an ethical framework for the problem-solving approach.

Whys Method

Solving problems on a superficial level can be a major mistake in business. You might think you are doing the right thing by solving a problem as soon as it pops up, but you may only be taking care of the top-level of a problem that runs much deeper. When that is the case, you will start to notice that this same problem comes up over and over again – likely costing you time and money in each instance.
Rather than dealing with the same problems over and over again, and making your business less efficient in the process, you should consider using the *5 Whys Method* in order to get down to the heart of the issue at hand. Basically, using the 5 Whys Analysis simply demands that you continue to ask 'why?' with regard to a problem until you get deep down to the root of the issue that you are facing.



While the number five is used in the title of this problem-solving technique, it will often be the case that more or fewer 'whys' are needed before the problem is solved. For example, some issues will only need to have the 'why' question asked two or three times before reaching a satisfactory solution, while other problems will require that you go six, seven, or even eight layers deep.

Your company didn't send the firm's newsletter for the latest software updates on time. Here is an example of applying the 5 Whys to this problem:

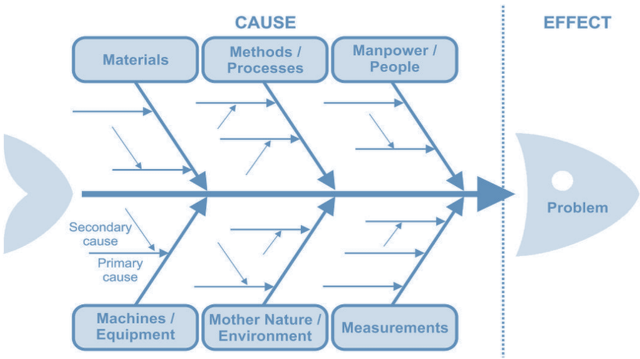
- Why didn’t we send the newsletter on time? The important updates were not implemented until the deadline.
- Why were the updates not implemented on time? Because the developers were still working on the new features.
- Why were the developers still working on the new features? One of the new developers didn’t know the procedures.
- Why was the new developer unfamiliar with all procedures? He was not trained properly.
- Why was he not trained properly? Because top management believes that new employees don’t need thorough training and they should learn while working.

You can notice that the root cause of the initial problem turned out to be something completely different from most expectations. Furthermore, it is obvious that it is not a technological, but a process problem. This is typical because we often focus on the product part of the problem as we neglect the human factor.
An important rule for the use of the 5 Whys Analysis is ensuring that it is processes and systems that are evaluated, rather than people. There are other mechanisms in place for evaluating the people within your organisation (or, at least, there should be), so employees and others involved in the process should be left out of this matter. For now, you are looking only at how the system is performing, and how it may need to be improved.
Also, all the answers to the question of why need to be as precise and specific as possible. Since this method of analysis does not include a specific framework for how it is to be completed, there is a temptation or tendency to be somewhat general when coming to conclusions. Of course, general conclusions are not going to get you very far in business. Instead, make sure that all answers are as specific as possible, in order to put yourself on track for a successful resolution of each problem that is addressed.

5 Whys Analysis is a technique used to explore the cause-and-effect relationships underlying a particular problem. The goal is to determine the root cause of a defect or problem by repeating the question ‘Why?’.

Cause-and-Effect Analysis

Cause-and-Effect Analysis is a technique that helps you identify all the likely causes of a problem. The diagrams you create with this type of analysis are known as *Fishbone Diagrams* because they look like the skeleton of a fish. The technique was developed by Professor Kaoru Ishikawa in the 1960s. His diagram was initially used for quality improvement but soon proved a highly effective problem analysis tool as well.
On the right-hand side of the Fishbone Diagram, the problem is described as “Effect” and on the left-hand side, the possible root causes are denominated into different categories. Here’s the best way how to build a Fishbone Diagram:



- Start by naming the main problem. This goes at the right head of the “fish” in your diagram.
- Make categories for causes and create the “bone structure” of your fish. Common categories include people, methods, measurements, materials, machines, and the environment.
- List possible causes under each category. For far-reaching or complex causes, it is possible to subdivide into sub-causes.
- The final step entails an analysis of the entire diagram, containing all the potential causes. Dependent upon complexity, the most likely causes may warrant closer inspection.

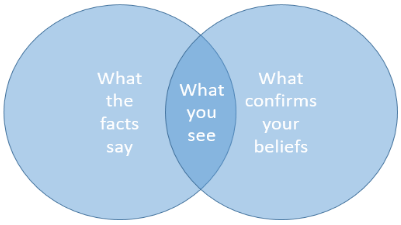
Don't be surprised if your Fishbone Chart becomes quite large as you continue to add potential causes to the various branches. Business problems tend to be rather complex, and there are many angles to consider when you are trying to figure out where things are getting off track.
A chart is only going to be helpful to your business if you actually take action on the results of your work. Once the chart is complete and you have a long list of causes to examine, the job then switches to looking through those issues until you decide what it is that needs to change.
A Cause-and-Effect Diagram, often called a Fishbone Diagram, can help in brainstorming to identify possible causes of a problem and in sorting ideas into useful categories. The causes are usually grouped into major categories.

Common Barriers

Common barriers to problem-solving are mental constructs that impede our ability to correctly solve problems. In this chapter, we want to introduce four of the most common problem-solving obstacles as well as strategies on how to tackle these barriers.

Confirmation Bias

In psychology and cognitive science, *Confirmation Bias* is a tendency to search for or interpret information in a way that confirms one's preconceptions, leading to statistical errors.



Confirmation bias is a phenomenon wherein decision-makers have been shown to actively seek out and assign more weight to evidence that confirms their hypothesis, and ignore or underweight evidence that could disconfirm their hypothesis.
This can be the result of missing steps out, or not using them correctly. Basically, you would have found the solution before you found the problem, and perceive the problem-solving method through this lens (perspective and intellectual blocks). For example, if you feel you already know everything about the problem, you won't perform research or only research things that confirm the appropriateness of the solution you want to use.

Research has found that professionals within scientific fields of study also experience confirmation bias. An experiment conducted by the authors Hergovich, Schott, and Burger in 2010 suggested that professionals within the field of psychological research are likely to view scientific studies that agree with their preconceived notions more favourably than studies that clash with their established beliefs.

Mental Set

Mental Set describes one's inclination to attempt to solve problems in such a way that has proved successful in previous experiences.
However, such methods for finding a solution that has worked in the past may not be adequate or optimal for certain new but similar problems. Therefore, it is often necessary for people to move beyond their mental sets in order to find solutions.
The mental set barrier comes from relying too heavily on heuristics – the clichés of problem-solving, like a 'rule of thumb' or 'common sense' as a way to solve a problem, rather than actively looking for the best or simplest solution.
The heuristic for mental mindset could be called 'why reinvent the wheel'. It relies on previous experiences to direct how a problem can be solved. This could be an intellectual block, as the problem solver is not prepared to learn new problem-solving skills, and emotionally relies on familiarity to feel comfortable with a solution.

In an experiment by Abraham Luchins in the 1940s, participants were asked to fill one water jug with a specific amount of water by either employing a complex method that they learned before or by a simpler method that was completely new to them. Luchins discovered that his participants tended to use the same older technique that they had become accustomed to despite the possibility of using a simpler alternative.

Functional Fixedness

Functional Fixedness is a specific form of mental set and fixation: It can be described as the fixed design of an object hindering the individual's ability to see it serving other functions. Functional Fixedness prevents thinking creatively and it limits the ability for people to solve problems accurately by causing one to have a very narrow way of thinking.

Functional Fixedness can hinder one's ability to solve problems. Solutions to problems are not always clear. It is often necessary to think "outside of the box". Functional Fixedness prevents people from coming up with new ways of using familiar objects so that they can solve problems that may come up.

There is no way to completely eliminate Functional Fixedness. However, it can be somewhat combated by practicing creative thinking. Creative thinking allows one to see outside of the categories that they have created.

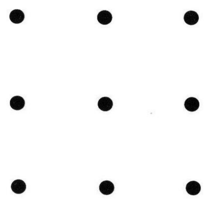
For example, you can use a big cereal bowl also as a soup bowl, a mixing bowl, or a fruit bowl. If you don't see the other functions of your cereal bowls and you decide to waste time and money to buy more bowls for eating soup, mixing salads and storing fruits, you are experiencing functional fixedness.

Unnecessary Constraints

Unnecessary Constraints are another very common barrier that people face while attempting to problem-solve. This particular phenomenon occurs when the subject, trying to solve the problem subconsciously, places boundaries on the task at hand, which in turn forces him or her to strain to be more innovative in their thinking.

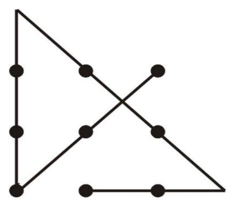
The solver hits a barrier when they become fixated on only one way to solve their problem, and it becomes increasingly difficult to see anything but the method they have chosen. Typically, the solver experiences this when attempting to use a method they have already experienced success from, and they can not help but try to make it work in the present circumstances as well, even if they see that it is counterproductive.

In the *nine dot problem,* there are nine dots lying on a grid three dots by three dots.



The solver is now asked to draw no more than four lines, without lifting their pen or pencil from the paper. This series of lines should connect all of the dots on the paper.

Then, what typically happens is the subject creates an assumption in their mind that they must connect the dots without letting his or her pen or pencil go outside of the square of dots. Researchers have often found a 0% correct solution rate in the time allotted for the task to be completed. The imposed constraint inhibits the solver to think beyond the bounds of the dots. Here is a possible solution to the problem:



It is from this problem that the expression "think outside the box" is derived.

Problems such as this are most typically solved via insight and can be very difficult for the subject depending on either how they have structured the problem in their minds, how they draw on their past experiences, and how much they juggle this information in their working memories.

Irrelevant Information

Irrelevant Information is information presented within a problem that is unrelated or unimportant to the specific problem. Within the specific context of the problem, irrelevant information would serve no purpose in helping solve that particular problem

Irrelevant information hinders problem-solving as it slows the process down, can cause confusion or misunderstandings. Irrelevant information makes solving otherwise relatively simple problems much harder.

People in brainstorming sessions often tend to go off-topic. This is why many brainstorming sessions have a facilitator to get things back on track. When gathering information, it can be getting distracted and looking at something that is interesting but not useful. It can result in too much information being collected, and people having trouble absorbing it.

For example, giving a problem-solving group full copies of all the information found in research, rather than summarising it as headlines, a graph or a mind map causes a lot of irrelevant information.

Better Decision Making

Running a business requires the ability to make good decisions. One wrong choice can affect the entire company. While the basic principles might be the same, there are dozens of different techniques and tools that can be used when trying to make a decision. Here are some of the more popular options:

Decision Matrix

As you are probably aware, the best way to make an important decision is to work through the various options at hand one by one, weighing each based on a number of factors before coming to a conclusion. That style of decision making is commonly used in business, and it is represented in the *Decision Matrix Analysis* model.
Rather than using a pre-designed matrix – which may or may not be appropriate for your needs – you are going to create your own matrix when using this model. That way, the matrix will be completely customised to your needs, and it will be certain to help you land on a successful conclusion. The process might sound like a lot of work upfront, but it is actually relatively quick and easy to perform. Once you have a little bit of practice in building this kind of matrix, you will likely return to it time and time again in order to make your big decisions.
To create your decision-making matrix, you'll need to collect the various options in play for the decision. You need to be open-minded at first, keeping all options on the table – even if you don't think they will be the winner in the end. List the options that you have for this decision at one side of your matrix, and list the influencing factors across the other side. Within the matrix, rate each combination of option and factor on a scale of 1-5.

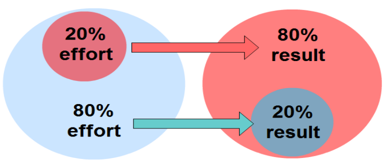
Simple Decision Matrix

	OPTIONS		
Criteria	Car A	Car B	Car C
Cost	5	3	3
Practicality	2	4	3
Performance	4	2	5
Reliability	1	2	4
Fuel Economy	2	3	3
TOTAL	14	14	18

Once you have filled in each square on the matrix, add up the scores and see which option comes out on top. You might not necessarily go with the highest scoring option if there are other issues to consider, but this matrix will be a great way to get started listing your options in order of viability.

Pareto Analysis

Pareto Analysis is based on the famous Pareto Principle, which states that 20% of the work you do will generate 80% of the results you are looking for. In other words, there is not a direct 1:1 relationship between the work you do and the results you get. If you pick out the right work to do, you can achieve most of your desired results without doing anywhere close to all of the work. Obviously, the 20% – 80% relationship is not an exact measurement, but it does highlight the lopsided nature of the connection between work and results.



This relates to decision making because each day you have to decide how time is going to be spent – either your own time or the time of the members of your team. Efficiency directly correlates to the bottom line, like the way you spend time each day is going to dictate how productive the organisation is as a whole. To use Pareto Analysis effectively, you are going to follow the steps below.

- *Find your problems***.** Make a complete list of the problems you would like to solve in your organisation.

- *Match uproot causes***.** For each of those problems, do your best to identify and highlight a root cause.
- *Give the problems a score.* Not all problems are created equal – rate the problems you would like to solve, with the highest scores going to the most important issues.
- *Create groups***.** Take some time to group your problems into like categories so you can attempt to solve more than one problem at the same time.
- *Score the groups***.** The problem groups which have the highest total score are those which should be addressed first. This simple process will help you to make sure your time and attention are being spent on problems which are affecting the business in the most significant way.

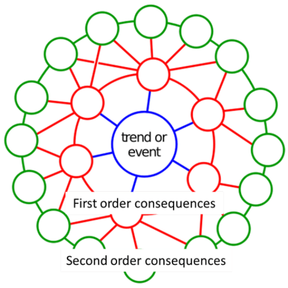
Pareto Analysis is based on the famous Pareto Principle, which states that 20% of the work you do will generate 80% of the results you are looking for. It is a useful technique for prioritising problem-solving work so that the first piece of work you tackle simultaneously resolves the greatest number of problems.

Futures Wheel

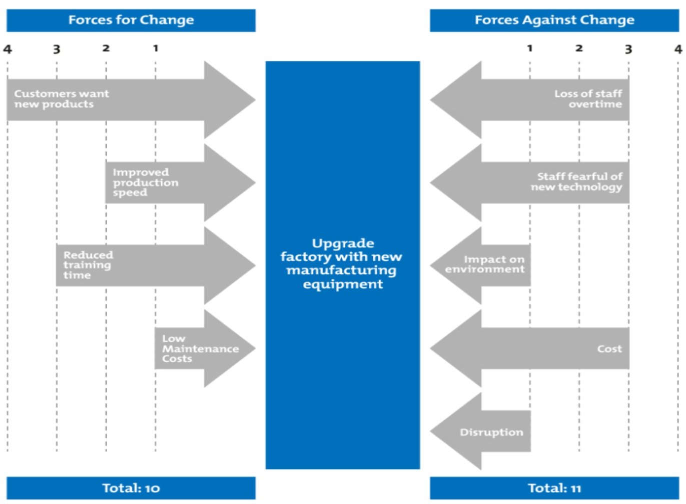
This is a tool which was created in the early 1970s and remains very much relevant today. Before you make your next big decision, consider putting together a *Futures Wheel t*o decide if you are heading in the right direction. The whole reason to think about how the future is going to be affected is the fact that you are considering a change of some kind. Maybe this is a change that is being forced upon you by market factors or other conditions, or maybe it is a change that you are initiating as a way to improve your organisation.

Using this model starts by writing a proposed change in the middle of a sheet of paper – this will become the hub of your wheel. From there, you are going to move out to write down lower-level changes that would need to occur in order to achieve the main change that is the focus on this process.

The idea here is to move into deeper and deeper levels of change, one step at a time. You are building a wheel gradually, with the spokes getting longer as you think of more changes that could be made to support the main change in the middle.



The Futures Wheel is a simple, visual tool that helps you brainstorm the direct and indirect consequences of a decision, event, or trend. Once you're finished generating the wheel, you'll have a visual map that lays out all of the implications of the problem or event, allowing you to manage the situation appropriately.



Force Field Analysis

In business, it is often the simple tools that are the most effective. That is certainly true in this case, as *Force Field Analysis* has been around for many decades and yet it remains a powerful tool to this day. When you are faced with making a decision that is going to impact the way your business moves forward, you might want to consider preparing a Force Field Analysis in order to determine whether or not you should continue with your plan. Doing this type of analysis is a great way to see both sides of a potential change, which is key in deciding how effective the change is going to be. Mistakes are made when only one side of a decision is considered, but that won't happen when Force Field Analysis is used properly.

To get started using a Force Field Analysis, the first thing you are going to do is write down your plan in the center of a sheet of paper. You should have clearly defined this plan before even getting started, as having an ambiguous plan from the beginning is going to make it extremely difficult – if not impossible – to make an accurate assessment of the forces at play. Any business decision-making tool is only going to be as good as its inputs, so take the time to make a clear and well-defined plan before getting started on this process

Now that the plan is in place, you are going to create your Force Field Analysis by forming a simple chart with two columns – one with items working in favour of the plan, and one with items working against. You are going to list down on this chart all of the relevant 'forces' at play here, both for and against your idea. Once you have completed the lists, you are going to assign a value to each of these forces, based on its power.

Add up all of those scores to get the final tally in the 'for' and 'against' columns. If you find that the 'for' column receives a significantly higher score, it may be wise to pursue this plan. If the 'against' column wins out, however, you might want to table the concept for now.

Force Field Analysis identifies forces that drive change and forces that resist change. In order for change to occur the driving force must exceed the resisting force otherwise, there will be no change. By adding up the totals for and against, you can see how strong resistance is, where it is coming from and what you will need to address to get the change to happen.

Conclusion

Problem-solving consists of using methods in an orderly manner to find solutions to problems. Some of the problem-solving techniques developed and used in business, engineering, mathematics, or medicine are related to mental problem-solving techniques studied in psychology.

Most people take an unstructured approach to problem-solving and although this can be successful, the solution they come up with may not always be the best one. A major disadvantage of an unstructured approach is that it is easy to hit a roadblock and convince yourself that the problem cannot be solved or that your solution cannot be implemented for practical reasons.

Problem-solving is the *four-step process* of defining a problem, determining the cause of the problem, identifying, prioritising and selecting alternatives for a solution, and implementing a solution.

Each of the *problem-solving tools i*n this course approaches problem-solving in a different way. This can help you to find solutions that that might not be immediately obvious and to compare possible solutions before choosing the best one.

Barriers to Problem Solving are things that prevent individuals from identifying a practical resolution to a problem. They are often referred to as – cognitive blocks – how we think and feel – as well as, physical and social blocks. Every individual has their own specific cognitive blocks and these effect which of the barriers they will encounter. Being aware of problem-solving barriers helps us identify the best tools and techniques to use in our, or team, problem-solving activities to remove such pitfalls.

Each of the *decision-making techniques* we have included in this article has the potential to lead your business in the right direction. Of course, you will have to know when to use the right one at the right time, and when you need to use one at all. For instance, you probably don't need to use a complicated technique for a decision that you make several times a day – doing so would be overwhelming and unnecessary. Rather, these kinds of techniques should be saved for those choices which are going to have a meaningful and long-lasting impact on your business. When those types of decisions roll around, pick out your favourite of these valuable techniques and get to work making the best possible choice

SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT

Introduction

Welcome to Sustainable Development!
Today, communities and countries face enormous challenges as their social, economic, and environmental resources are damaged. Because these resources are interconnected, there are no simple solutions.
But be it disease, child abuse, crime, injustice, weakened economies, energy shortages, lack of good jobs, extinction of species, poverty, destruction of forests, pollution, or armed conflict, integrated solutions can resolve these seemingly diverse problems. However, acting on the interdependencies of the economic, environmental, and social elements of our world requires new ways of thinking about things and taking action – systemic instead of symptomatic – that will create a future where human society and nature can coexist with mutual benefit and where the suffering caused by poverty and natural resource abuse is eliminated.
Sustainable development has become a popular catchphrase in contemporary development discourse. However, in spite of its massive popularity it has garnered over the years, the concept still seems unclear as many people continue to ask questions about its meaning and history, as well as what it entails and implies for development theory and practice. Sustainable development therefore stands the risk of becoming a cliché like appropriate technology – a fashionable and rhetoric phrase – to which everyone pays homage but nobody seems to define with precision and exactitude.
The purpose of this course is to contribute to the discourse on sustainable development by further explaining the paradigm and its implications for human thinking and actions in the quest for sustainable development. We want to introduce key principles, present the important 2030 Agenda with its goals, and recommend implementation mechanisms.

Sustainability

There is no universally agreed definition of *sustainability*. In fact, there are many different viewpoints on this concept and on how it can be achieved. In general, sustainability means that a process or state can be maintained at a certain level for as long as wanted.
However, nowadays – because of the environmental and social problems society is facing – sustainability is commonly used in a specific way: Sustainability can be defined as the processes and actions through which humankind avoids the depletion of natural resources to keep an ecological balance, so that the quality of life of society doesn't decrease.
Sustainable development can also be interpreted in many different ways, but at its core is an approach to development that looks to balance different, and often competing, needs against an awareness of the environmental, social and economic limitations we face as a society.
All too often, development is driven by one particular need, without fully considering the wider or future impacts. We are already seeing the damage this kind of approach can cause, from large-scale financial crises caused by irresponsible banking, to changes in global climate resulting from our dependence on fossil fuel-based energy sources. The longer we pursue unsustainable development, the more frequent and severe its consequences are likely to become, which is why we need to take action now.
In 1987 the United Nations released the report Our Common Future, commonly called the Brundtland Report. The report included what is now one of the most widely recognised definitions of sustainable development:

Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.
By this definition, sustainable development aims to maintain economic advancement and social progress while protecting the long-term value of the environment.

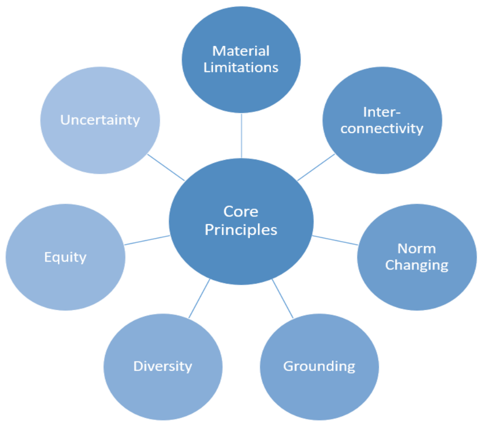
Basic Concepts

In this chapter we want to discuss some basic concepts. We will introduce the principles that support the argument for a sustainable future, present the major sustainability models and showcase some common indicators needed to measure sustainable development.

Core Principles

Our conversation on sustainability has to rely on the basic principles that support the argument for a sustainable future – those facts that pull us back to the causal roots of the problem. These rational principles include the following:

- *Everything material on Earth has limitations:* Earth is a closed system with regard to material cycling such that there is a thermodynamic irreversibility of natural processes. The Earth will not grow and therefore the size of things, such as population, matter. The closed nature of material cycling implies that there are ecological limits on human activity. Sustainability is about recognising and working within these limits, not stressing resources by overconsumption beyond irreversible states.
- *Many components of our global system are interconnected:* Problems in the economy, environment, and society are interrelated and are subject to becoming global in context. Human and ecological well-being is interconnected by the nature of the planet's components, which are intimately intertwined and systemic. Sustainability is a systemic means of addressing these complex interconnections and inter-dependencies.
- *Change is the norm, not the exception:* Society and its economic systems must maintain constant vigilance for change in the harmony of the natural world. Nothing is static. In carrying out programs intended to enhance society or protect the environment, we must recognise the possibility of unintended consequences. Mistakes will be made so the adaptability of systems to significant change is extremely important.



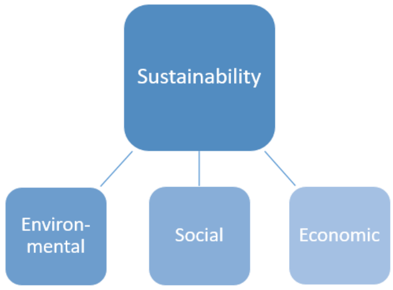
- *All socioeconomic factors are grounded in a healthy environment:* The environment is the plumbing of the planet. Nature is our life support. There is simply no way around this reality. Without functioning ecosystems nothing else matters.
- *Diversity within systems (natural or human) will contribute to the system's stability and resiliency:* Species diversity in ecosystems, with all its varied functions, is one of the more important factors in sustaining the quality of the natural environment.
- *Equity is the foundation of healthy functioning systems:* Opportunity for social equity is an important foundation element of sustainable societies, for without the potential for equal access to resources, opportunities, and good environments, envy can generate conflict between those who have and those who have not.
- *Uncertainty and ignorance are often associated with complex systems:* Science and knowledge are intrinsically uncertain, with new information continually altering and improving our perceptions and beliefs. Therefore, decisions based on scientific information must be made in the context of uncertainty, but with the recognition that further experimentation and monitoring could lead to more certain outcomes.

Despite inherent uncertainty, principles from science must underpin public conversation if global solidarity is to be achieved. These seven principles about our world are the reasons sustainability has become a global phenomenon. Using these evidence-based principles as a starting point, it becomes much easier to have a dialogue about environmental and socioeconomic issues, especially when the true concerns of society are often controversial and cross traditional boundaries of economic, social, and environmental interests.

Models

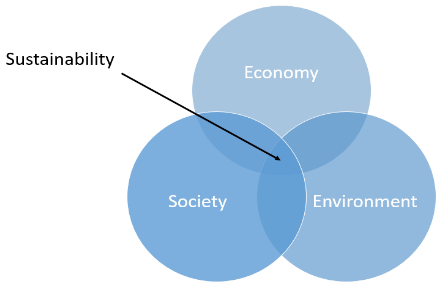
Moving towards sustainable development presents tremendous challenges. *Models* help us understand the concepts of sustainability better. They help us gather, share, and analyse information. They help coordinating work; and educate and train professionals, policymakers, and the public. We want to highlight the three most common models for understanding sustainable development:

The 3-Legged Stool Model



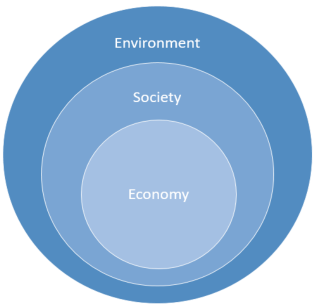
For years, experts used the three-legged stool model to illustrate the common three dimensions of sustainability: economic, environmental, and social. The stool metaphor reinforces the three dimensions that are required for us to enjoy a high quality of life – and shows that society is unstable if one of them is weak. On the downside, all three legs look separate and equal.

The 3 Overlapping Circles Model



The overlapping-circles model of sustainability acknowledges the intersection of economic, environmental, and social factors. Depending on our mindset, we can re-size the circles to show that one factor is more dominant than the other two. For example, some business leaders prefer to show the economy as the largest circle because it is the most important to their success.

The 3 Nested Dependencies Model

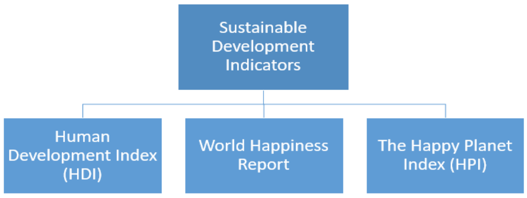


The 3-nested-dependencies model – also called *Egg of Sustainability* – illustrates the relationship between people and ecosystem as circles inside another, like the yolk of an egg. This implies that people are within the ecosystem, and that ultimately one is entirely dependent upon the other. Just as an egg is good only if both the white and yolk are good, a society is well and sustainable only if both, people and the eco-system, are well.
The 3-nested-dependencies model reflects our complex co-dependent reality. It shows that human society is a wholly-owned subsidiary of the environment – we depend on food, clean water, fresh air, fertile soil, and other natural resources. Furthermore, it's the people in societies who decide how they will exchange goods and services.

They decide what economic model they will use and they can change them if they find their current economic models are not working to improve their quality of life.

Indicators

An *indicator* helps to understand where we are, which way we are going and how far we are from our goal. It alerts us to a problem before it gets too bad and helps recognise solutions to fix the problem.
Indicators of sustainable development are different from traditional indicators of economic, social, and environmental progress. Traditional indicators – such as unemployment rate, GDP growth, inflation, pollution, life expectancy, and water quality – only measure changes in one part of a community as if they were entirely independent of the other parts. Sustainable development indicators, on the other hand, reflect the reality that the three different segments are very tightly interconnected.
Three important multidimensional sustainable development indicators that show the links among a community's economy, environment, and society are described below:



1. Human Development Index (HDI)
The Human Development Index (HDI) is a measure of human development that captures health, education, and income. It is used to rank countries on a scale from 0 to 1 into four tiers of human development. A country scores a higher HDI when the lifespan is higher, the education level is higher, and the gross national income GNI (PPP) per capita is higher. In the 2019 report, the four best scoring countries were Norway, Switzerland, Ireland, and Germany.
2. World Happiness Report
The World Happiness Report is an annual publication of the United Nations. It ranks 156 countries by how happy their citizens perceive themselves to be. As of 2019, Finland was ranked the happiest country in the world twice in a row – followed by the Scandinavian countries Denmark, Norway, and Iceland.
3. The Happy Planet Index (HPI)
The Happy Planet Index (HPI) is an index of human well-being and environmental impact that was introduced by the New Economics Foundation (NEF). The index is weighted to give progressively higher scores to nations with lower ecological footprints. In 2016, the best scoring country for the second time in a row was Costa Rica.
4. The 2030 Agenda

In 2015 all countries of the United Nations adopted the *2030 Agenda* and its *17 Sustainable Development Goals (SDGs).* The Sustainable Development Goals are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere until 2030.

17 SDGs

In 2015, Heads of State and Government agreed to set the world on a path towards sustainable development through the adoption of the 2030 Agenda for Sustainable Development. This agenda includes *17 Sustainable Development Goals (SDGs)* which set out quantitative objectives across the social, economic, and environmental dimensions of sustainable development – all to be achieved by 2030.
The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. The 17 goals address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace, and justice:
These 17 SDGs build on the success of the *Millennium Development Goals (MDGs)* in mobilising collective action around a time-bound set of globally agreed goals. The eight MDGs were agreed upon in 2000 to halve extreme poverty by 2015 as a midpoint towards eradicating poverty in all its forms.
Many countries have made significant progress towards achieving the MDGs since 2000. However, a lot of countries did not make sufficient progress, particularly on environmental sustainability, and it is now widely recognised that additional work is needed to achieve the ultimate goal of ending extreme poverty in all its forms.
Many societies have experienced a rise in inequality even as they have achieved economic progress on average. Moreover, the entire world faces dire environmental threats of human-induced climate change and the loss of

biodiversity. Poor governance, official corruption, and in dramatic cases overt conflict, afflict much of the world today.

The SDG Agenda responds to these compound challenges and is, therefore, broader and more complex than the MDGs. Most importantly, it adopts sustainable development as the organising principle for global cooperation, meaning the combination of economic development, social inclusion, and environmental sustainability. Finally, the SDGs and related agenda apply to all countries – developed and developing alike.

Dimensions

One way to measure progress of the SGD Agenda is to focus on the five dimensions that shape the SDGs: People, Planet, Prosperity, Peace, and Partnership. These "5 Ps" highlight how the SDGs are all interconnected. Progress on one P should always support progress on another.

1. People

"We are determined to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment." (2030 Agenda)

The MDGs played an important role in focusing the world's attention on reducing extreme poverty, yet progress has been incomplete. In particular, least developed countries remain behind, as they face structural barriers to development. In many societies, the most vulnerable populations have made little progress. Mass migration, often caused by violence and conflict and gender inequality remain widespread. Large numbers of people – especially children – do not have access to sufficient food, affordable education and primary health care, and major efforts are needed to ensure universal access to basic infrastructure, including energy, water, sanitation, and transport.

2. Planet

"We are determined to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations." (2030 Agenda)

The scale of human impact on the physical Earth has reached dangerous levels, which threatens long-term progress against poverty and the well-being of rich and poor countries alike. Many natural resources and ecosystems essential for human and societal well-being are being threatened or destroyed, such as loss of biodiversity, air pollution, water shortages and pollution, deforestation and grassland degradation, and soil contamination. Climate change is no longer a future threat but a stark current reality. With the scale of global economic activity doubling roughly every generation we must change how the economy functions or the environmental consequences of growth will become overwhelming and indeed devastating.

3. Prosperity

"We are determined to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature." (2030 Agenda)

The world must shift to sustainable consumption and production patterns that do not deplete natural resources for future generations, and that promote prosperity for all. Unless this shift occurs, continued population and economic growth will further increase planetary pressures and exacerbate social exclusion and inequality. Current growth patterns are not providing enough decent work, especially for young people without adequate skills and training, and are leading to widespread unemployment. Women continue to be economically undervalued and excluded in many countries and regions.

4. Peace

"We are determined to foster peaceful, just and inclusive societies, which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development." (2030 Agenda)

Critical steps for sustainable development include promoting good governance, rule of law, human rights, fundamental freedoms, equal access to fair justice systems, as well as combatting corruption and curbing illicit financial flows. Effective and inclusive institutions are necessary to prevent all forms of abuse, exploitation, trafficking, torture, and violence. Most important, enhanced global cooperation is needed to prevent the spread of wars and extreme violence as is now afflicting many countries in the Middle East, North Africa, and Western Asia.

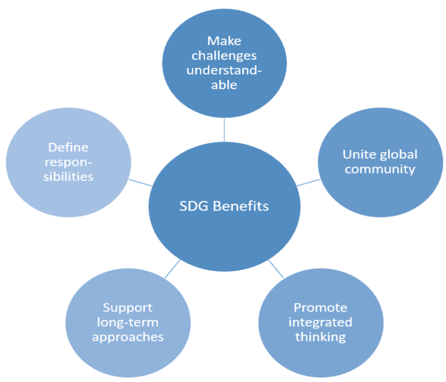
5. Partnership

"We are determined to mobilise the means required to implement this Agenda through a revitalised Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people." (2030 Agenda)

The SDG Agenda calls for a renewed global partnership, indeed many partnerships at all levels, with all countries and stakeholders working in solidarity to achieve the goals. Today's governments must coordinate with a broad spectrum of actors, such as multinational businesses, local governments, regional and international bodies, and civil society organisations.

SDG Benefits

But why do we need Sustainable Development Goals? Global goals, such as the MDGs and the SDGs, complement international conventions and other tools of international law by providing a globally shared normative framework that fosters collaboration across countries, mobilises all stakeholders, and inspires action. Well-crafted goals are able to:



- *Provide a shared narrative of sustainable development and help guide the public's understanding of complex challenges***.** The SDGs will raise awareness and educate governments, businesses, civil society leaders, academics, and ordinary citizens about the complex issues that must be addressed. Children everywhere should learn the SDGs as shorthand for sustainable development.

- *Unite the global community and mobilise stakeholders.* Community leaders, politicians, government ministries, academics, non-governmental organisations, religious groups, international organisations, donor organisations, and foundations will be motivated to come together for a common purpose around each SDG. The shared focus on time-bound quantitative goals will spur greater mobilisation, promote innovation, and strengthen collaboration within epistemic communities or networks of expertise and practice. The experience in public health under the MDGs provides a powerful illustration of how communities can mobilise around time-bound goals.
- *Promote integrated thinking and put to rest the futile debates that pit one dimension of sustainable development against another.* The challenges addressed by the SDGs are integrated and must be pursued in combination, rather than one at a time. As a result, SDGs cannot be ordered by priority. All are equally important and work in harmony with the others. Each goal should be analysed and pursued with full regard to the three dimensions of sustainable development (economic, social, and environmental).
- *Support long-term approaches towards sustainable development.* The goals, targets, and indicators will allow public and private actors to identify what is needed and chart out long-term pathways to achieve sustainable development, including resources, timelines, and allocation of responsibilities. This long-term perspective can help to insulate the planning process from short-term political and business imperatives.
- *Define responsibilities and foster accountability.* In particular, the goals can empower civil society to ask governments and businesses how they are working towards every one of the new goals. Timely, accurate data on progress is crucial for effective accountability. The SDGs must drive improvements in data and monitoring systems, which look to capitalise on the "data revolution," i.e. significant improvements in local, national, and global data collection, processing, and dissemination, using both existing and new tools.

Opportunities

While some trends, such as human-induced climate change or social exclusion, are moving in the wrong direction, other development trends offer reasons for hope. We live in a time of immense opportunity, with the end of extreme poverty in sight. There have been tremendous technological advances. The SDG agenda sets out *five key opportunities* for development:

- *Inclusive Development:* The SDGs will engage multiple stakeholders at all levels of society to actualise the agenda. "All stakeholders, acting in collaborative partnership, will implement this plan." No one is left behind or left out, as "governments, international organisations, the business sector and other non-state actors and individuals must contribute."
- *Universal Development:* The MDGs set out goals mainly for developing countries, to which rich countries added assistance through finances and technology. In contrast, the SDGs are "universal goals" that apply to all countries and "involve the entire world, developed and developing countries alike." Achievement of any of the SDGs will require concerted global efforts to achieve all of them.
- *Integrated Development*: The SDG Agenda moves away from siloed approaches to development and promotes the integration of the economy, environment, and society. The SDGs are "integrated and indivisible and balance the three dimensions of sustainable development." The success of one leads to the success of all. Included in this is the need for good governance and strong social networks.
- *Locally-Focused Development:* Implementing the SDG Agenda will depend heavily on local planning, community buy-in and local leadership, well-coordinated with the work of other levels of governance. Local authorities and communities are responsible for the realisation of the goals at local scales, recognising in particular interdependent relationships between urban, peri-urban, and rural areas.
- *Technology-Driven Development:* Rapid technological change, particularly in information and communication technology, is deepening the integration of the world economy and enabling

breakthroughs in productivity across the economy. New technologies also offer tremendous opportunities to deliver public services, including healthcare, education, and basic infrastructure to more people at a lower cost.

Key Transformations

Today, we still have a long way to achieve the 17 goals. The UN Sustainable Development Solutions Network (SDSN) and the World in 2050 Initiative (TWI2050) introduced *six key transformations* needed to achieve the SDGs in a manageable way. These six transformation steps are:

Education

Education builds human capital, which in turn promotes economic growth, the elimination of extreme poverty, decent work, and overcoming gender and other inequalities. Three sets of interventions promote education and gender equality and to lower inequalities:

- First, countries need to expand and *transform education systems*. Universal quality primary and secondary school education is the backbone of education systems. It requires enhanced teacher training, curriculum development and continuous evaluation of learning outcomes. Higher education and lifelong learning opportunities are underdeveloped in most countries, despite the fact that they increase lifetime earnings and reduce inequalities.
- Second, to further reduce inequalities, countries need to *expand social safety nets*. These need to be complemented by anti-discrimination measures, improved labour standards and measures to end all forms of modern slavery, trafficking and child labour.
- Finally, to promote economic growth, most countries need to *boost innovation* and ensure diffusion from research and development. Tertiary education, national science funding, innovation hubs and incubators can accelerate the adoption of new technologies.

Education builds human capital, which in turn promotes economic growth, the elimination of extreme poverty, and overcoming inequalities. Countries need to transform education systems, expand social safety nets, and boost innovation.

Health and Well-Being

The 2030 Agenda requires key investments in *health and well-being.* Design will be led by health ministries in coordination with other ministries. Interventions under the other five transformations, particularly relating to environmental health, can reinforce health outcomes and well-being.

The principal intermediate output is *universal health coverage*. It requires a publicly financed health system that integrates prevention, therapeutic and palliative services; integrated information systems; and disease surveillance and control. Health systems need to focus on primary healthcare and offer interventions for maternal, newborn and child health; effective prevention and treatment of infectious diseases; and non-communicable disease control, including mental health and basic surgery. In combination with improved girls' education and gender equality, investments in child health and sexual and reproductive health will accelerate the voluntary transition towards low fertility rates. Community health programs can improve health outcomes significantly.

Health interventions outside the health sector can improve the social determinants of health. They include policies and metrics to raise well-being and quality of life. Changes to social norms and behaviours promote healthy lifestyles through better hygiene; lower consumption of tobacco, alcohol and other harmful substances; and abstaining from risky behaviour (for example, practicing safe sex prevents the spread of sexually transmitted diseases).

Universal health coverage that supports an integrated health care model will direct care and focus toward cultivating healthier lifestyles.

Energy and Industry

The 2030 Agenda aims to ensure universal access to modern energy sources, decarbonise the energy system and reduce industrial pollution. This step requires close coordination among several government ministries, including buildings and construction, energy, environment and transport.

Decarbonising energy systems requires approaches across power generation, transmission, buildings, transport and industry. Shifting from fossil fuels to zero-carbon sources – including wind, solar, hydro, geothermal and tidal energy – is essential. Smart power grids can reduce electricity storage needs and increase the efficiency of the power grids. Countries also need to improve energy efficiency in final energy use, including transport, heating and cooling of buildings, industrial energy use and household appliances.

Key industrial pollutants include methane, nitrous oxides and sulphur dioxide, as well as organic and other inorganic pollutants and plastics. Responsible consumption and production cut across several of the other transitions, allowing us to do more with fewer resources – we need to adopt a circular economy approach, improve waste management, and reduce demand.

Creating access to sustainable sources of energy, decreasing carbon emissions, and eliminating the contamination of natural resources are critical steps for securing efficient use of energy.

Food, Land and Water

Our current land-use and agricultural policies lead to persistent hunger, malnutrition and obesity. They account for a quarter of all greenhouse-gas emissions, over 90% of scarcity-weighted water use, most losses of biodiversity, over-exploitation of fisheries, and pollution of water and air.

At the same time, food systems are highly vulnerable to climate change and land degradation. Integrated strategies are needed to make food systems, land-use and oceans sustainable and healthy for people. This transformation exhibits the highest potential for trade-offs across interventions. Increases in agricultural production may exacerbate biodiversity loss and water scarcity. Rising incomes around the world will add to the pressure on food systems, unless diets become healthier and more environmentally sustainable.

- Countries have to maintain *long-term resilient agricultural systems and fisheries.* Major increases are needed in yields and resource-use efficiency in terms of nutrients, water, greenhouse-gas emissions and chemicals.
- Forests, soils, peatlands, wetlands, savanna, coastal marine areas and other ecosystems must be *conserved and restored*.
- *Consumer demand* must shift towards healthier diets, including a move away from highly processed food and red meat.
- Finally, countries require *strategic* land-use, ocean-use and water-management approaches to help manage competing claims for food production, urban development, transport, tourism, and biodiversity conservation.

Strategies should be designed and implemented by ministries of agriculture and forestry, environment, water and natural resources, fisheries and marine resources, and health.

Achieving access to nutritional food and clean water for all, while protecting the biosphere and the oceans, requires more efficient and sustainable food systems – for example by increasing agricultural productivity and reducing meat consumption.

Sustainable Cities

By the year 2050, about 70% of humanity will live in cities and other urban areas. Cities are particularly vulnerable to climate change, but most cities are far from meeting the triple objective of being economically productive, socially inclusive and environmentally sustainable.

- Ensuring access to the *water supply, sanitation and waste disposal* the first focus of this transformation. An estimated 1.2 billion people lack access to safely managed drinking water services, and 2.4 billion people do not have access to safely managed sanitation.
- Sustainable and efficient *mobility* is a second priority. This includes infrastructure for roads, railways and ports, as well as public transport systems and ride-sharing. Particular attention must be paid to reducing air pollution from transport.
- Third, cities need to promote more *safe and healthy settlements* to accommodate rising urban populations. This will require adequate green spaces, infrastructure for cycling and walking, and other interventions to increase resource-use efficiency and quality of life.
- Finally, cities also need to *enhance resilience* against climate change and extreme weather events, including more heatwaves, droughts, flooding and enhanced disease transmission.

Organising this transformation is complex, owing to the large number of stakeholders involved and the distribution of responsibilities between national and local levels of government. Ministries of transport, water and sanitation, and urban development will play central roles.
Transforming our settlements will benefit the world population and the environment – such as through 'smart' infrastructure, decent housing and high connectivity.

Digital Revolution

Digital technologies are disrupting nearly every sector of the economy, including agriculture (precision agriculture), manufacturing (robotics), retail (e-commerce), finance (e-payments), media (social networks), health (diagnostics), education (online learning), and public administration (e-governance).
New technologies can raise productivity, lower production costs, improve resource efficiencies, reduce emissions, enable the use of big data, and make public services more readily available. Yet there are also risks that countries must identify and tackle – like the loss of jobs, particularly for lower-skilled workers, and the shift of income distribution from labour to capital.
Universal access to high-quality, low-cost mobile broadband is essential to capture the benefits of the digital revolution. Countries also need to promote the digitisation of healthcare and education. Finally, public institutions need to be strengthened to govern and shape digital innovations towards sustainable development.
Science and technology need to support sustainable development. Digital technologies can raise productivity, lower production costs, reduce emissions, expand access, dematerialise production, and make public services more readily available.
All six key transformations are *synergistic* without any major trade-offs: The development of one transformation step should always reinforce other transformations.

Implementation

Planning is the process of thinking about the activities required to achieve a desired goal. Implementing your plan is putting your goals into motion. This is the "doing" stage. Here, we will discuss priorities, actors involved, and implementation tools.

Priorities

Before embarking on SDG implementation, stakeholders should take stock of where their country, sector, region, or city stands with regards to achieving all seventeen goals. Indicators, based on the latest available data, should be used to assess the country or city's broad performance on the SDGs.
Identifying priorities does not mean choosing one goal at the expense of another; the SDGs were crafted as an integrated set, which are interdependent and complementary. Instead, prioritisation means identifying those areas lagging furthest behind and catalysing resources, awareness, and policy actions in those areas to spur rapid progress.

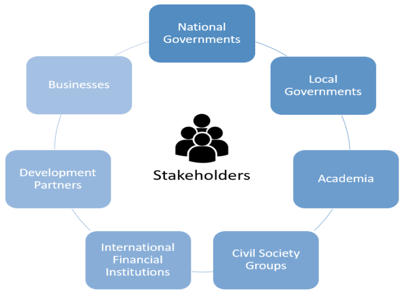
Example: *Prioritisation at the German Federal Association for Sustainability*

German Federal Association for Sustainability

The German Federal Association for Sustainability integrates the Sustainable Development Goals into its fields of action. And while it considers the emphasis on the equivalence of objectives as essential, it also considers a prioritisation of the goals as meaningful. By prioritising, it understands the classification of the contents of the individual goals according to causes and consequences, which in turn result in activities and measures to fight causes and consequences.
The German Federal Association for Sustainability puts Goal 10 – Reduced inequalities in the center of its approach. It believes that all other goals address symptoms that occur as a result of inequality.

Stakeholders

Developing SDG strategies and plans should be a multi-stakeholder process, engaging national and local government representatives, civil society, businesses, faith-based groups and representatives from academia and science.



Effective multi-stakeholder engagement will build on the expertise of individual actors to do collective problem-solving. Different actors will need clearly defined roles and responsibilities to make the process work. This section discusses what various stakeholders can contribute to the process and how they may best be included:

- *National Governments* develop national strategies, agree upon a national monitoring framework, and establish multi-stakeholder advisory groups to support implementation.
- *Local Governments* will be a critical frontline of implementing the agenda since cities and communities will be dynamic test beds for new sustainable development strategies.
- *Academia* in the form of universities and educational institutions can incubate new technologies, identify strategic priorities, and train a new generation of sustainable leaders.
- *Civil society groups* represent the needs of underrepresented communities and regions. They also have extensive experience in delivering services to the poor.
- *International financial institutions,* like the World Bank or the International Monetary Fund (IMF), should participate both in strategy formation and in goal-based committees.
- *Development partners* can contribute or donate technical and managerial expertise.
- *Businesses* should be represented in the SDG planning process, as opportunities for collaboration abound. When working in partnership with business, governments should keep in mind the profit-driven nature of companies.

Tools

Sustainable development requires a long-term transformation, which in turn requires longer-term planning processes than the usual annual budgets or medium-term expenditure frameworks. The SDG framework calls for 15-year strategies and some SDGs even require planning over several decades.

1. Backcasting:
A best practice in long-term planning is backcasting. This means generating a desirable future, and then *looking backwards* from that future to the present in order to strategise and to plan how it could be achieved. The core of the backcasting exercise is creating a long-term plan that maps out targets, milestones, and steps that need to be taken to achieve the desired endpoint by the desired date, including financing needs.
2. Needs Assessments:
Countries must mobilise adequate public and private resources to invest in key sustainable development areas. Conducting needs assessments to determine the volume of public and private *investment required* is a complex undertaking that will require significant work in most countries. On the basis of SDG needs assessments countries, regions, or cities can develop financing strategies that include private financing opportunities, government resource mobilisation, and international public financing.
3. Data Collections:
The success of the SDG Agenda hangs on careful *monitoring of the progress*. High-quality, timely and reliable data will be needed to help with the measurement of progress. Collecting reliable data will depend on crafting a robust set of national monitoring indicators, strengthening statistical capacity, and harnessing new technologies.
4. Goal-based Partnerships:
The SDGs affirm the importance of partnerships at the *national and international level,* from bilateral partnerships between states to combinations of public, private, and multilateral actors. Each sector has unique features and requirements for success, but shared goals and metrics help to mobilise all actors involved in a particular area. Backcasting can show how the goals can be achieved through sustained investments and supportive policies.

Examples

Sustainable development involves satisfying the needs of the present population without endangering the capability of the future population to satisfy its own needs. Though many examples of sustainable development can be discussed, five key examples are summarised here:

1. Wind Energy

Harnessing onshore and offshore wind energy to provide power for homes, offices, and other buildings is one of the best examples of sustainable development. After all, wind is a free resource. If you live in an area with "good wind," it's possible to supplement or replace grid power at no cost, once you've invested in a windmill.

2. Solar Energy

From small roof-top solar panels to massive solar farms: energy from the sun is available in limitless supply in most areas. Installing a photovoltaic system allows energy from the sun to be harnessed to replace or supplement grid power without the need to use up resources that are not renewable.

3. Crop Rotation

Crop rotation is the practice of planting different crops in the same farm to enhance soil fertility and assist control diseases and insects. Crop rotation is beneficial in many ways – most importantly, it's chemical-free. Not only can this form of development benefit commercial farmers, but it can also aid those who garden at home.

4. Green Space

Incorporating green spaces into urban development is an example of sustainable development. Green spaces include parks and other areas where plants and wildlife are encouraged to thrive. These spaces also offer the public great opportunities to enjoy outdoor recreation, especially in dense, metropolitan areas.

5. Efficient Water Fixtures

Many countries in the world are becoming water stressed and we are beginning to understand that water is not as unlimited as we once believed. Installing efficient showers, toilets, and other water using appliances in existing structures and new construction is a way of making the most of available resources by conserving water.

Conclusion

Sustainable development has attracted much attention lately. The ultimate aim of sustainable development is to meet the needs of the present generation without compromising the ability of future generations by balancing economic growth, environmental stewardship, and social inclusion.

The 2030 Agenda inspires us to think creatively by leveraging innovative approaches and critically rethinking the way we approach the development challenges of today. By adopting the Agenda, the UN member states committed to an ambitious plan of action that requires the concerted efforts of all segments of society including civil society, development practitioners, the private sector, and academia. Each one of us, in our personal capacities, also needs to take concrete steps towards sustainable life choices.

The key transformations require deep, deliberate, long-term structural changes in resource use, infrastructure, institutions, technologies and social relations that must be undertaken in a short period of time.

Governments, with support from science, need to set medium-term targets with time horizons and develop detailed policy pathways for achieving these targets. This requires working backwards from these time-bound targets to identify the systems design, investment trajectories, and technologies that can deliver the long-term goals.

Financing must be aligned with long-term pathways. Most countries will need to increase domestic resource mobilisation, and low-income developing countries will require increased international financial assistance. To mobilise private financing and direct it towards each transformation, governments can use corrective pricing through taxes, charges or trade-able permits.

The transformations also require fundamental changes in norms, belief systems, and cognitive heuristics. Social movements, public activism, and awareness campaigns should explain the ethics of sustainable development.

Finally, the most essential foundation of sustainable development is peace, which requires international cooperation. A fair trade system would support economic development in rich and poor countries alike.

SUSTAINABLE BUSINESS

Introduction

Welcome to Sustainable Business!
Today, more and more companies are integrating sustainability into their business strategies to improve processes, pursue growth, and add value to their firms rather than focusing on reputation alone.
The concept of sustainable development has received growing recognition, but it is a new idea for many business executives. For most, the concept remains abstract and theoretical.
In 1987, the United Nations published "Our Common Future" – also known as the Brundtland Report. The Brundtland Report outlined the following description of sustainable development:

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
Protecting an organisation's capital base is a well-accepted business principle. Yet organisations do not generally recognise the possibility of extending this notion to the world's natural and human resources.
To understand this definition in terms of business, we will define sustainable business as one that operates in the interest of all current and future stakeholders in a manner that ensures the long-term health and survival of the business and its associated economic, social, and environmental systems.

A *sustainable business* is concerned about the current and future social, environmental, and economic impacts associated with its operations.

But how does a business measure whether it is a sustainable business? The "*triple bottom line*" was coined by John Elkington in 1994 and basically means that a sustainable business not only looks to have a healthy economic bottom line, but also healthy social and environmental bottom lines. This concept is also known as: People, Planet, Profit.

- *Profit*: Historically, businesses only measured their value through their *economic bottom line*, which includes elements like sales, profits, taxes paid, or monetary flows.
- *People*: The *social bottom line* can be measured by elements like labor practices, human rights, or product responsibility. Social bottom lines can also be measured by community impact, such as the total financial contributions made to nonprofits.
- *Planet*: The *environmental bottom line* is basically a company's environmental footprint and typically is measured as greenhouse gas (GHG) emissions, as well as energy, waste and water usage.

As you progress this course, we challenge you to not think of sustainability as a program or an activity. Rather, sustainability is a mindset and worldview.

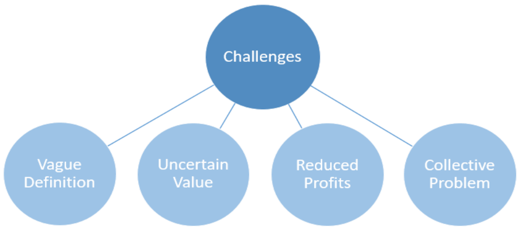
Risks and Benefits

In the past, responding to environmental problems has always been a no-win proposition for managers. Recently, however, this perspective has changed: Being green and sustainable is no longer a cost of doing business; it is a catalyst for innovation, new market opportunity, and wealth creation.

Challenges

Business executives, environmental activists and academics all have different ideas what it means for a business to be sustainable. Especially top managers are often afraid that their firm's "sustainable move" could be expensive and hurt the company. Here, we will discuss four major challenges of becoming a sustainable business:

1. Vague Definition
The lack of a clear definition means there is a lack of accountability, as well. Businesses are increasingly claiming to be sustainable, but few can provide hard evidence that their business practices are not damaging the environment. *Greenwashing* is when a company or organisation spends more time and money on marketing themselves as environmentally friendly than on minimising their environmental impact. It is a deceitful advertising gimmick intended to mislead consumers who prefer to buy goods and services from environmentally conscious brands.
2. Uncertain Value
Shifting business practices to be more environmentally-friendly can be expensive, at least in up-front costs, which makes businesses averse to making necessary changes. It is relatively easy to calculate the savings from buying renewable energy, but not all sustainability solutions are as straight-forward. Changing an entire business supply chain to use more sustainable raw materials or recycle those materials is likely to require a costly initial investment even if it would pay off years later.
3. Reduced Profits
Supporting real sustainability means encouraging customers to consume less. That goal stands in direct contrast to companies' business models, which is to expand and sell more of their products. Furthermore, many consumers do not consistently factor sustainability into their purchase decisions.

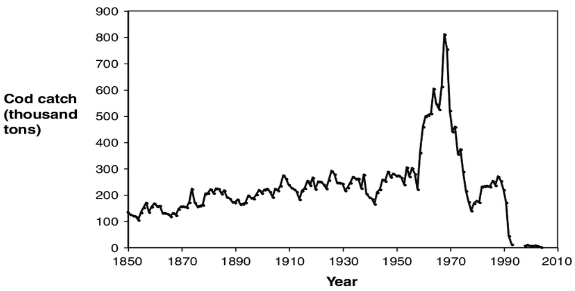


4. Collective Problem
The economic problem known as the "tragedy of the commons" posits that people believe if they do not use a natural resource, someone else will, and they will lose out. That mindset leads people (and companies) to deplete valuable resources.

The *tragedy of the commons* is a situation in a shared-resource system where individual users, acting independently according to their own self-interest, behave contrary to the common good of all users by depleting or spoiling the shared resource through their collective action. This problem results in over-consumption, under-investment, and ultimately depletion of a common-pool resource.

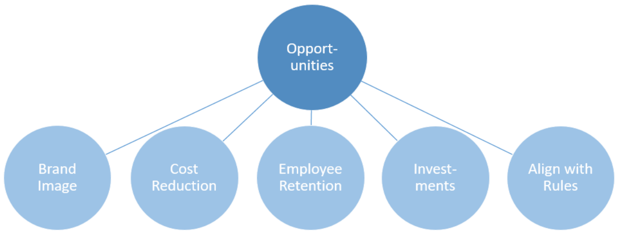
The *Grand Banks fishery* off the coast of Newfoundland is a prime example of the tragedy of the commons. For centuries, fishermen described this region as home to an endless supply of codfish. However, in the 1960s and 1970s, advancements in fishing technology allowed fishermen to catch comparatively massive amounts of codfish – which meant that cod fishing was now a rivalrous activity. Each catch left fewer and fewer codfish in the sea. Fishermen started competing with each other to catch increasingly larger amounts of cod, and by 1990, the population of codfish in the region was so low, the entire industry collapsed.

Chart: Codfish catch in Newfoundland
One possible solution is top-down government regulation or direct control of a common-pool resource. In a typical example, governmental regulations can limit the amount of a common good that is available for use by any individual or company.



Opportunities

Businesses practicing sustainability improve their image and reputation, reduce costs, and help boost the local economy, all of which lead to improved business and stronger and healthier local communities for operations. Here are five reasons, why becoming sustainable might be highly beneficial for a company:



1. Improved Brand Image and Competitive Advantage

Being a sustainable business can improve your brand image. Today's customers are more aware of environmental concerns than prior generations. They are likely to buy from the organisation that is known for practicing sustainability. This way, it also helps a company to get a competitive advantage. Spreading awareness and practicing sustainability not only builds up a positive brand image, but also penetrates at a deeper level to employees, their near and dear ones, and beyond.

2. Increased Productivity and Reduced Costs

Through the development of more sustainable business practices, efficiency in operations can increase. With better use and conservation of resources, operations will be streamlined and costs will decrease in the long run.

3. Enhanced Employee Retention

Employees want to work with companies that are proactive with corporate environmental and social programs. They don't want to be associated with the companies involved in ecological disasters and community welfare scandals. By offering sustainable practices, companies can recruit and retain a greater talent pool.

4. Raising Financial and Investments Opportunities

Financial and investment analysts have recognised companies who have developed sustainability plans (with regards to energy efficiency and reduction of environmental impact) are likely to attract investors more than those who don't have.

5. Matching with Government Regulations

Facing the consequences of climate change, global warming, shrinking water resources, and pollution, state and federal government agencies are imposing regulations to save the environment. Incorporating sustainability into corporate practices will help a company to avoid penalties or hefty fines.

The company that seeks to be a sustainable business should understand that sustainability is a company-wide goal that incorporates every aspect of the business and its relationships.

Changing World

Businesses that thrive in the future will be those companies that figure out how to place sustainability at the heart of their business strategies. Three major categories of change are transforming what business and sustainability mean: *climate change, technology, and economic shift.*

Climate Change

The steady increase in extreme weather confirms that our planet is changing. Humanity has stepped decisively into the *Anthropocene period* – the current, relatively recent period of the Earth's history in which humans have irreversibly changed the planet.

Among other things, a warming Earth will disrupt long-standing agricultural patterns, undermine ecosystem health, contribute to the spread of novel pathogens, exacerbate water scarcity, and ratchet up pressure on scarce land. Furthermore, we have to urgently face air, water, soil and solid waste pollution.

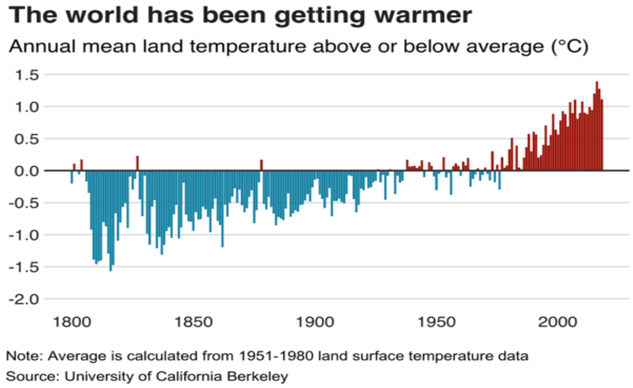
The Challenge:

The impacts of climate change are being felt today. Extreme weather has introduced new levels of financial, operational, and human vulnerability. Companies need to build resilience in the face of climate change, water scarcity, and related disruptions, both in their own operations, infrastructure, and supply chains, and in the communities in which they operate and invest.

The Opportunity:

Attending to this issue will mitigate risk, ensure business continuity, and involve business in parlaying its skills and knowledge as part of the overall climate solution.

The Uncertainties:
Creating resilience requires broad collaboration for a benefit that cannot be predicted with certainty. Climate resilience efforts will be influenced by many uncertain factors, including the policy landscape, the ability of stakeholders to coordinate, the pace of mitigation efforts, and the development of new technological solutions.

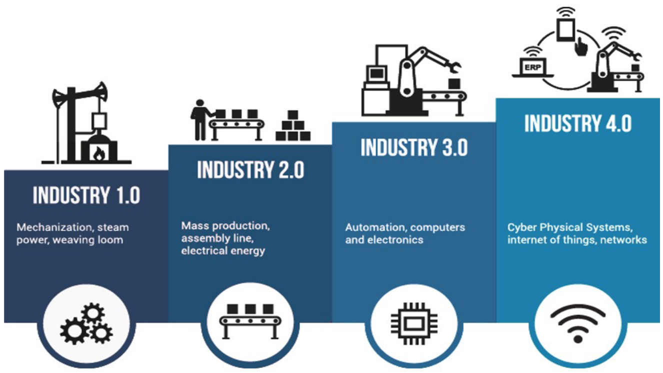


Technology

In the past, machines had to be told what to do. Now, a machine can learn what to do. From self-driving cars to facial recognition, Artificial Intelligence (AI) is rapidly changing the world around us and is enabling the creation of powerful new tools to address some of humanity's most pressing challenges.
The Challenge:
New technologies continue to offer world-changing benefits in terms of health, connectedness, efficiency and productivity, transparency, and access. Companies need to develop policies and practices that address big new ethical questions about the application of new technologies. Most companies depend on using personal data and many are exploring the use of artificial intelligence, augmented reality, and other technologies, and there is very little agreement on how to apply these tools fairly.
The Opportunity:
Business has much to gain through these innovations, and many technologies can also unlock solutions to climate change and other societal issues. Business also has much to lose if society does not accept these big innovations. Companies have to ensure that technologies are adopted consistent with human rights principles and in a way that contributes to building social consensus so we are all able to capture the benefits of a connected world.
The Uncertainties:
Human rights principles were largely developed 75 years ago, in a very different reality from ours. In addition, technology moves faster than social norms and official regulations. This leaves gaps in our understanding of the implications of technologies that bring profound change and creates strains for a global governance system that is not able to anticipate and address new technologies. Additional uncertainty exists around the potential capabilities of artificial intelligence and how quickly these will be developed and deployed.

Economic Shift

For 2020 to 2035, the global population is projected to add one billion more people. The scale of basic human needs to be met – to be fed, clothed, sheltered, educated, moved around, meaningfully employed, and cared for – is far greater than what we deliver today.



This constitutes an enormous opportunity for those who see it as such, and new technologies and business models are emerging that make it more feasible to meet these needs sustainably. However, it remains to be seen whether business and government are up to the task – and, if they're not, how humanity will respond.

The Challenge
Today, we are at the dawn of an economic transition as profound, or more profound, than the transition from an agricultural economy to the industrial world. This new world – especially when coupled with a global economy experiencing fundamental demographic change – means that the need to generate quality employment in an era of automation is essential.
The Opportunity
Automation presents opportunities to increase efficiency on a massive scale while improving work safety and other benefits. Business has much to gain if it develops a clear vision of what it can do to generate quality employment and participates in a broader discussion about a social contract fit for the 21st century.
The Uncertainties
For the first time since the industrial revolution, labor and economic productivity appear to be de-linked. How the quest for inclusive growth plays out in the coming years will be shaped by critical uncertainties – including the capabilities of automation, government intervention to shore up social safety nets, the ability of educational systems to keep pace with change, and the potential growth of alternative economic models.

ABC Framework

The ABC (act – build – change) framework provides a blueprint for putting sustainability at the center of business strategy, governance, and management. It enables companies to play their full part in the creation of a just and sustainable world.

The New Frame

The world around us is changing more rapidly than ever before. Now the era of isolated sustainability strategies needs to end; the creation of business strategies that take sustainability as their foundation needs to begin.
Few companies are born with a broad-based commitment to sustainability. To develop one, companies need leadership commitment, an ability to engage with multiple stakeholders along the value chain, widespread employee engagement, and disciplined mechanisms for execution.
A growing number of companies are taking notice of these shifts and have come to consider sustainability-related strategies necessary to be competitive. Studies show that "highly sustainable" companies significantly outperformed their counterparts in terms of both stock market and accounting criteria.
The transformation towards sustainable business and the economic shift towards sustainability will be most effective if the process is based upon an "act, build, change" approach to company strategy, governance, and management. This "act, build, contribute" framework is our blueprint for the future of sustainable business.

A	**Act**: Companies can act within their own company boundaries to support sustainability by improving their strategies, government, and management systems.
B	**Build**: Companies can build beneficial relationships with others by collaboration with external stakeholders and transparent reporting mechanisms.
C	**Change**: Companies can change the status quo beyond their own company boundaries by promoting policies, influencing regulation, and advocating for sustainable business.

The ABC framework was originally introduced by BSR (Business for Social Responsibility) in 2018 and developed further by E_CIS (European Center for Innovation and Sustainability). The new frame provides a blueprint for putting sustainability at the center of business enabling companies to play their full part in the creation of a just and sustainable world.

A – Act

Companies can *act* within their own company boundaries to support sustainability by developing new business strategies, improve governance structures, and implement leadership approaches that respond to the rapidly-shifting world.

- *Strategy*: Companies need to create resilient business strategies that take sustainability as their foundation. They also need to emphasise long-term value creation and find ways to move beyond short-term performance pressures that can prevent progress on sustainability. In many ways, sustainability issues and business issues have converged: Sustainable business is often better business, and a sustainable future is a better future. Sustainability makes us more innovative, more flexible, and more resilient.
- *Governance*: Boards and senior executives have the expertise, insights, and information necessary to plan for a sustainable future over the long term, while also overseeing sustainability performance today. To achieve this, companies could align incentives (like executive compensation) to sustainability performance, recruit board members with sustainability expertise, and provide training on material sustainability issues.
- *Leadership*: The creation and implementation of resilient business strategies will require new types of executive leadership that support organisational leadership on sustainability issues. Structures, processes, and relationships exist that make sustainability an essential part of company decision-making and operations, built upon an ethical organisational culture that sustains integrity and supports sustainability innovation. As of today, leaders to be value creators (identifying opportunities to create business value), futurists (evaluating long-term risks and opportunities), change agents (supporting organisational change), and coalition builders (connecting innovative departments).

What does this mean for your company?

- Create resilient business strategies that view progress on sustainability as a means of long-term value creation and innovation.
- Conduct scenario planning and strategic foresight.
- Recruit board members with expertise relevant to sustainability.
- Frame sustainability as an opportunity for growth and value creation.

B – Build

Companies can *build* beneficial relationships with others to strengthen sustainability beyond their own company boundaries by collaboration with external stakeholders and introducing transparent reporting mechanisms.

- *Collaboration*: Innovation in stakeholder engagement supports the development of more inclusive societies. A sustainable business should be able to analyse the broader environment in which it operates, with an understanding that the company is just one actor in a wider social system that is linked to, and dependent on, external actors. To succeed, a business is required to look at all actors, including commercial actors (such as suppliers, business partners, and customers) as well as noncommercial actors (such as governments, communities, and users), and considering their relationships with each other.
- *Reporting*: There is a broad range of audiences for sustainability information: Investors want information that is material for investment decisions, but other important stakeholders – such as civil society organisations, employees, or policy makers – may have different priorities and information needs. Companies can fulfil the purpose of sustainability reporting by deploying different types of information at different report users.

What does this mean for your company?

- Develop stakeholder relationships that support your new business strategies.
- Use stakeholder relationships as a source of innovation.
- Target different reports at different audiences.
- Experiment with how to apply different reporting standards simultaneously.

C – Change

Companies can *change* the status quo beyond their own company boundaries by promoting sustainable policy frameworks, influencing regulation, and advocating for sustainable business.

- *Regulation*: Businesses can influence company law and regulation. They should support regulatory frameworks and rules for due diligence and disclosure that drive sustainable business.
- *Advocating*: The essence of sustainable business is ensuring positive outcomes for society, and the business voice in critical debates is an important tool that companies have at their disposal. It is essential

that business leaders become more effective at connecting sustainability challenges with priorities that resonate with the public.

What does this mean for your company?

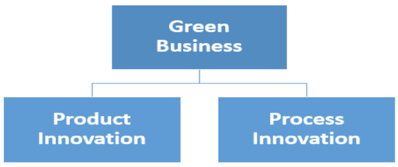
- Influence future legal frameworks through leadership by example.
- Use the business voice to advocate for policy frameworks that support resilient business.
- Demonstrate the potential for sustainability to generate economic benefit for all.

Green Business

This course focuses on the combined three-dimensional social, environmental, and economic impacts of a sustainable business. In this chapter, however, we will talk about businesses that focus exclusively on their environmental impact, which is also referred to as a *green business*.

Going Green

The concept of "green business" is composed of two elements – "green" and "business". Like a regular business, green business is also about earning profit. But "green" means doing so while sustainably harnessing opportunities that nature holds, and without harming the environment.
Green business can be defined from two perspectives: one relates to the output in the form of green products or services, while the other relates to the process of economic activity. This means entrepreneurs can enter the "green business" sector by either providing environmentally friendly products/services or through an environmentally friendly process.



- Green businesses may offer products or services that are explicitly green (Example: a renewable energy company involved in the manufacturing, installation, and servicing of solar panels to generate electricity instead of generating it from non-renewable sources).
- Green businesses may offer mainstream products and services, but use green operations (Example: a clothes manufacturing company that uses organic cotton and filters its waste-water for reuse).

While a step-by-step approach of gradual greening is usually most practical, ideally, as the business matures, both its outputs as well as processes should become green.
On the next pages, we will highlight the three important stages of developing a green business.

Generating a Business Idea

Green entrepreneurs are involved in the production of environmentally friendly products and services or make use of processes that are environmentally friendly. Green entrepreneurs – like any other entrepreneurs – need to possess certain characteristics to be successful. These characteristics include passion, goal-orientation, decision-making, risk-taking, ability to handle stress, ability to access to social support, financial endowment, and business management skills.
In addition to these general characteristics, green entrepreneurs need to think about the planet and its people along with profit, so some further characteristics are required. A green entrepreneur needs to be:

- *Analytical* – As the green sector is relatively new, entrepreneurs venturing into it need to be able to analyse the potential for success and failure and plan accordingly.
- *Innovative* – Green entrepreneurs need to be able to "think outside the box" and come up with new solutions to address environmental problems.
- *Committed to ethical standards* – A green entrepreneur needs to think about profit, but also about people and the planet (the 3 "P"s) when making business decisions.

Your green idea is the starting point for your green business. Ways of coming up with business ideas include learning from business people, drawing from your own and other people's experiences, surveying your local business area, scanning your environment, and structured and unstructured brainstorming. A green business idea can relate to either a green product or a green service, or it can relate to a "standard" product or service, but which is produced or delivered in a green way.
Once you have come up with your business idea, consider the following issues:

- To what extent does the business depend on the surrounding natural environment (soil, wood, charcoal, fish, wind, sun, water, etc.)?
- Will the business have a positive impact on the environment (clean the water, improve the soil, etc.)?
- Will the business affect the environment in any negative way?

Remember that even if your main motivation is to help overcome an environmental problem, you cannot only think about the environmental dimensions when assessing your idea. It is equally important to assess the economic dimensions such as whether there will be sufficient demand for the product or service.

Developing a Business Plan

In order to launch a business, you need to develop a business plan. A business plan is a document setting out a business's future objectives and strategies for achieving them.
The development of the plan is not an overnight process and may take several weeks or months to complete. The business plan for your green business should cover all the aspects to be considered before starting the business. Here we will highlight the most important *business plan components* and describe their purpose:

Executive Summary	The executive summary is an outline of your green business idea. In addition to the generic issues covered in a business plan, the summary should highlight its green dimensions.
Business Idea	All business plans are based on an idea. In describing your idea, you need to highlight what makes it unique as a green business (in terms of the product/service or process).
Marketing Plan	Your marketing plan needs to be based on a solid understanding of the market. Once you know your market, you need to develop a marketing plan based on the "4 marketing Ps": *Product*: What goods or services you are going to offer to satisfy the customers' needs? *Price*: How much are you going to charge your customers for your goods or services? *Place*: How and where will you offer your products or services? *Promotion*: How do you attract customers to make a purchase?
Staff	You will need to decide what your business' staffing needs are based on what tasks need to be performed. When assessing what staff you need, consider whether any additional technical skills are needed for your green product/service.
Organisation	Like any entrepreneur, you will need to decide on the form of business. A green business can take one of many forms, including a sole proprietorship, a partnership, or a cooperative, for example. You should weigh the pros and cons of each before choosing the best form.
Inventory	Your business will need to buy before you make or sell your products/services. When buying for your business, consider how environmentally friendly the materials or equipment you buy are.
Financial Planning	You need to be able to plan and monitor the financial situation of your business using tools such as the profit plan and a cash flow plan. Like any other business, your green business needs to perform financially, otherwise, you will not be able to keep it going.

Greening the Processes

Greening processes refers to the transformation of the business/production processes of your enterprise in order for it to become a green business. Every enterprise can green its operations and processes. There are two dimensions to this. On the one hand, it concerns the inputs required and on the other hand, it concerns the unintended output or waste and pollution.
So, greening your processes aims both at:

- Increasing the efficiency of inputs used in the enterprise (reducing the use of energy, material, and water while increasing or maintaining the same level of product or service delivery).
- Reducing the amount of unintended output (reducing waste, pollution, and the excessive destruction of natural resources).

Here are some tips on how to make the processes of a business greener:

- *Pay attention to your raw materials:* When selecting your raw materials, think sustainable. This may mean organic, biodegradable, recyclable or renewable. Organic agricultural products, biodegradable plastic, or wood from sustainable forestry are examples of raw materials that make your business footprint greener.

- *Green your energy and water consumption:* Your business is likely to require energy and/or water. You can go green by using energy from renewable sources such as solar energy, and by using harvested rainwater, for example. You can also reduce your energy consumption by making use of more energy-efficient equipment.
- *Minimise your emissions:* Switch to fuels that are as green as possible and use equipment that produces the smallest amount of emissions possible. Sometimes a switch from a diesel generator to an electric machine reduces costs while cleaning the local air.
- *Reduce, reuse and recycle waste:* Reduce by using as little as possible. Reuse whatever can be reused. For waste that you can't reuse yourself or provide to others for reuse, give it in for recycling. Finally, for waste that cannot be reused or recycled, dispose of it in a responsible way.
- *Transport responsibly:* Minimise distances used for transport, reduce weight and volume through efficient packaging options, avoid less than full loads, plan efficient journeys, and when transporting, choose the least environmentally harmful options available. Also think of sharing transport with others when possible.
- *Think outside of the box***:** Use your creativity to make a profit while helping the environment. Eco-entrepreneurs tend to be innovators. Sometimes, sophisticated technologies, scientific expertise or a large amount of money are needed to make an innovative idea a reality. But sometimes you can also use resources that are already available in your community and transform them to make a profit. For example, you may have heard of innovative ideas such as eco-coolers made from discarded plastic bottles, or cups and plates made from coffee grinds.

Sustainability SWOT

The *Sustainability SWOT Analysis* (sSWOT) is based on the standard SWOT analysis – an established business tool used to evaluate a company's competitive position by analysing its Strengths, Weaknesses, Opportunities, and Threats.
The sSWOT is a new, green version of the traditional tool. It helps companies identify and assess environmental risks and to drive action on environmental challenges. This way, the sSWOT can also be useful to initiate new sustainable products and business ideas.
In the following example, you can see how a sSWOT matrix for a company may look like:

STRENGTHS		WEAKNESSES	
Conventional strengths	**Green strengths**	**Conventional weaknesses**	**Green weaknesses**
High-revenue product	Energy & material efficient production process can decrease costs and increase profits	Lack of skilled labour	Lack of knowhow to produce innovative products (e.g. solar panels) needed for the idea
OPPORTUNITIES		**THREATS**	
Conventional opportunities	**Green opportunities**	**Conventional threats**	**Green threats**
Upcoming market for this product	Large consumer base for eco-friendly & healthy products	Cheaper product available in the market	Government subsidies for competing, non-green products

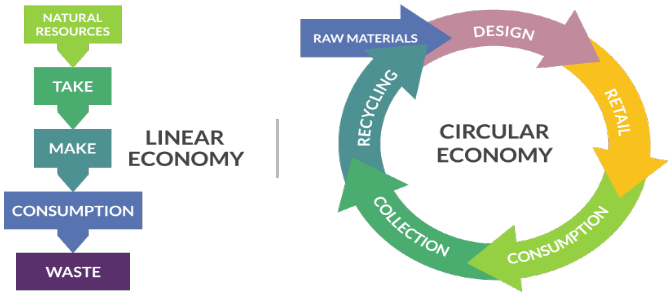
The sSWOT is designed to help drive action and collaboration on environmental challenges, creating business risks and opportunities. sSWOT helps individuals engage and motivate colleagues – particularly those with limited knowledge of environmental issues or corporate sustainability.
Companies can use this analysis to work across internal departments – as well as with suppliers, customers or other stakeholders – on strategies to create and sustain long-term value.

Circular Economy

A *circular economy* is an economic system aimed at eliminating waste and the continual use of resources. Circular systems employ reuse, sharing, repair, refurbishment, remanufacturing, and recycling to create a closed-loop system, minimising the use of resource inputs, the creation of waste, and pollution.
The circular economy aims to keep products, equipment, and infrastructure in use for longer, thus improving the productivity of these resources.
Transitioning from a linear economy to a circular economy does not only amount to adjustments aimed at reducing the negative impacts of the linear economy. Rather, it represents a systemic shift that builds long-term resilience, generates business and economic opportunities, and provides environmental and societal benefits.

Many different definitions of the circular economy are used in scientific literature and professional journals. However, most definitions focus on the use of materials. These definitions often follow the *3R approach:*

- *Reduce* (minimum use of raw materials)
- *Reuse* (maximum reuse of products and components)
- *Recycle* (high-quality reuse of raw materials)



Mobility can serve as a good example: Car sharing means that fewer people have to buy their own cars. This reduces the use of raw materials (reduce). If the engine of a car is broken, it can be repaired or the chassis and interior of the car can be used to make or refurbish another car (reuse). When these parts can no longer be reused, the metal, textile, and plastic of the parts can be melted down so that a new car can be made of them (recycling).
In a circular economy, economic activity builds and rebuilds overall system health. The concept recognises the importance of the economy needing to work effectively at all scales – for large and small businesses, for organisations and individuals, globally and locally.

Example: Patagonia

Patagonia is an American clothing company that markets and sells outdoor clothing. Patagonia is the leading example of a successful social impact company with consistently high ratings for sustainability leadership and high profitability.
Patagonia's business model is manufacturing and selling high-quality outdoor clothing products both through distributors and direct to consumers. The business model also focuses on creating social and economic value through its business. Impact and environmentalism is part of the Patagonia brand identity. Patagonia's mission is to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."
Patagonia inserts initiatives for impact and social responsibility. Also, the company's product design and branding emphasise the values and ethics of the founding vision. Here are some examples:

- *Reporting as a Benefit Corp (B-Corp):* Patagonia became a B-Corp in 2012 in California, as soon as it was possible in that state. Becoming a B-Corp allows socially and environmentally committed companies to write those values into their articles of incorporation, and more generally holds companies accountable to impact metrics beyond simply financial gain.
- *1% For the Planet Initiative:* Patagonia has pledged 1% of revenues to go to nonprofit charities that promote sustainability and conservation. This further emphasises its focus on environmental impact.
- *Worn Wear Initiative*: The initiative emphasises the ability to repair clothing while highlighting Patagonia's durability. Patagonia staff drove around the United States to repair clothes, including non-Patagonia clothing.

- *Anti-Consumerism Marketing:* The business markets and advertises against buying products to promote sustainability and promote the values of Patagonia. A famous add read "Don't Buy This Jacket." Patagonia has pushed back against consumer trends like Black Friday as well, hoping that consumers will spend more on fewer, more durable products.

In an age where consumers are more aware of and interested in the impact businesses have on the world, Patagonia's business model which emphasises sustainability is well-positioned to continue to capture loyal, impact-driven customers.

Conclusion

Today, companies must choose whether to start the journey to become sustainable or to continue to do 'business as usual'. Although each company must make that choice for itself, changing social and investor expectations will only increase the pressure to adopt the sustainable model.

Doing so requires strong leadership commitment, without which the journey cannot begin. In re-framing its identity, the company must learn to engage openly with external stakeholders. Maintaining transparency without recourse to defensive strategies is integral to a sustainable strategy. As this strategy is implemented through broad-based employee engagement and disciplined mechanisms for execution, a new identity can emerge: that of a sustainable company.

A helpful guide for this challenge is the ABC framework. This frame provides a blueprint for putting sustainability at the center of business to enable companies to play their full part in the creation of a just and sustainable world. In many parts of the world, societies are growing more fragmented, and the rapid pace of change is increasing a sense of disconnection for many people. Often, governments are slow to adapt to changing conditions. It is crucial that companies advocate for outcomes that leverage all of the changes we are discussing for broad social benefit. Business will have the platform to play this role only if it champions an agenda that resonates with the public, and only if it is seen to be acting for the benefit of the greater good – for reasons that go beyond short-term financial gain. The payoff for business is substantial: the opportunity to help build support for progress on crucial issues, the creation of a more predictable operating environment, and, ideally, the restoration of trust.

CRISIS MANAGEMENT

Introduction

Crises can neither be avoided nor accurately predicted. When they occur, the community rightly expects that the response of their leadership will minimise harm to life and limb, restore important operations and processes, and ensure that the situation will go back to 'normal' as soon as possible.
Crisis management is the process by which an organisation deals with a major event that threatens to harm the organisation, its stakeholders, or the general public. The study of crisis management originated with the large-scale industrial and environmental disasters in the 1980s.
This course explores how governmental organisations as well as private companies around the globe have prepared for crises, how they responded when they occurred, and whether they learned from the experience. It is clear from many other organisations that good preparation and training, both individual and institutional, can help prevent a crisis from becoming a disaster.
We hope that this course will encourage professionals, companies and public organisations to review their own crisis preparations.

Definition

Crises can occur in many forms. They may have a sudden arrival and a swift conclusion, such as hijackings and bushfires, or they may be slow to develop and conclude, such as global warming or deforestation. In this chapter, we want to discuss definitions and introduce the Crisis Management Cycle.

What is a Crisis?

Natural disasters, economic recessions, political conflicts – today, crises seem to appear everywhere around the globe. Most people link crisis to extreme danger, instability, stress, and uncertainty. However, if we want to manage crises effectively we have to build and use a common terminology. So is there a better crisis definition?

A crisis is a change – which may be sudden or which may take some time to evolve – that results in an urgent problem with a high level of uncertainty that must be addressed immediately.
A crisis can occur in many forms. For example as a result of natural disasters such as floods or storms, socio-political forces such as terrorism or computer hacking or business causes such as the financial meltdown of an organisation or sector. Incidents such as leaking of sensitive personal data by government agents, management misconduct (e.g. leader's private life, extravagant fringe benefits), or deception (e.g. hiding or providing false information) can also turn into crises.
Crises may have a sudden arrival and a swift conclusion, such as hijackings and bushfires, or they may be slow to develop and conclude, such as global warming or deforestation.
There is also the question of deciding when something is a crisis, and when the government should intervene. In many cases, there are no hard and fast rules or clear cut procedures for determining a crisis.

Levels of Crises

Crises may be of differing scales, dimensions and types. A three-level categorisation of crises can be helpful in thinking about crises and how to manage them:

	Level 1 Crisis refers to a crisis within an organisation or section which can be resolved within the resources of the organisation and which has a limited impact outside of the organisation.
	Level 2 Crisis refers to a major incident which involves several organisations and/or impacts on a sizeable part of the community. Multiple resources are needed and there are impacts outside of the organisations involved.
	Level 3 Crisis refers to a catastrophic emergency event which involves a whole region or sizeable part of the community. Resolution is beyond the application of local resources and the impacts are large scale and system-wide.

In this course, our main focus is on level 2 and 3 crises. Steps taken to deal with smaller-scale crises within an organisation or section are normally similar to those required in larger crises. The main difference is that cross-cutting teams or initiatives are less needed, and actions regarding preparation, management and evaluation can be managed within the organisation. But the same actions described in this course, such as the need for crisis planning, effective leadership and clear communications, still apply whatever the scale of the crisis.

Crises may also appear and disappear relatively quickly, with sudden arrival and conclusion, such as hostage-taking, heatwaves or bush fires. Alternatively, crises may be slower to emerge, giving more time to prepare, and slower to conclude, leaving longer-term issues for organisations and society to deal with.

Crisis Management Cycle

Crises are not the normal ups and downs of an economic cycle or organisational routines, those recurring problems faced in the course of taking risks and exploring new opportunities. Consequently, crisis management can be seen as complementary to and acting in conjunction with business practices such as risk management and business continuity management. But it is also important to be aware that crisis management doesn't start when a crisis arises and ends when the crisis is over. Crisis management requires actions *before* a crisis happens, *while* the crisis is unfolding, and *after* the crisis has ended.

Crisis management has always been a feature of good public management. But in recent years national and international events and the impacts of globalisation in areas such as pandemics, climate change and terror attacks have raised the importance of good crisis management. Public leaders have a particular responsibility to help safeguard society from the adverse consequences of a crisis. When these responses go wrong, the crisis can escalate.

But when the crisis is managed well, the impact of the crisis can be minimised. Some crises demand fast and effective government responses, as their scale is beyond the handling capability of individual agencies or groups of departments. Other crises can require inputs from non-government organisations and agencies, and the local and/or international community. On this latter point, there is often a need for the public sector to coordinate the actions of non-government organisations and individuals during all the phases of a crisis.

A useful way of understanding the demands of crisis management on public managers is to think of crisis management in terms of different phases of a cycle, as displayed below. The three phases of the Crisis Management Cycle are:

- *Preparation*: Dealing with issues such as planning, simulations and training.
- *Management*: Dealing with issues such as allocation of resources, command systems and communications.
- *Evaluation*: Dealing with issues such as post-crisis lesson learning, debriefing and accountability.

Of course in reality there is an overlap between these phases. But the cycle process provides a useful mechanism for thinking through the actions needed for effective crisis management, as the following sections of the course will show.

Preparation

In the *preparation phase*, there are a number of issues to be addressed: Putting in place supportive crisis management architecture, planning to inform actions, and conducting crisis exercises to identify existing strengths and weaknesses are three key issues in crisis management preparation.

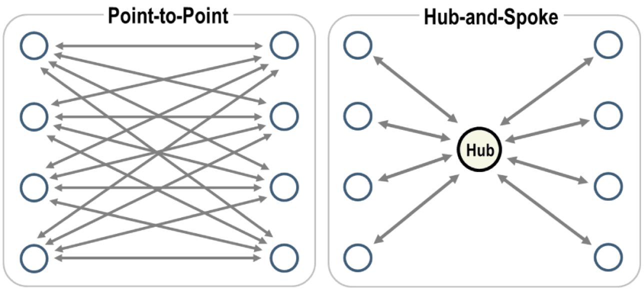
Architecture

It is increasingly common practice for a crisis management structure to be created to oversee and coordinate crisis management. National crisis management structures are often supported by a crisis management center, as this example of the coordination and crisis center from Belgium illustrates:

The Belgian *Governmental Coordination and Crisis Centre*, located in the Ministry of the Interior, was established to assist the federal government in the planning and interdepartmental management of crises and major events.

Nationally, it has responsibility for matters such as risk analysis and emergency planning; planning, coordination and follow-up of major events (events at risk); and infrastructure and organisation for crisis management. Internationally, it is the contact point for international centres such as Ecurie (nuclear alert system), BICHAT (biological and chemical attacks and threats) and EMSC (European Mediterranean seismological centre). It has responsibility for the drawing up of cooperation procedures with other departments and/or provincial, national and international institutions.

Crisis management architecture needs to ensure effective command and control. When Hurricane Katrina hit New Orleans in 2005, over 1,500 people died and tens of thousands were left without basic supplies. The response to Katrina featured neither an effective network nor an effective hierarchy. It lacked a clear command and positive working relationships among key actors. The capacity of the network was also weakened, in large part due to the capacity weaknesses of its hubs, especially the Federal Emergency Management Agency. Hub agencies need to have high capacity and adequate resources.



The use of effective 'hub' agencies and associated 'spoke' agencies is a model which, when effectively resourced, has been shown to work well. *Hub agencies* take the lead in coordinating responses and are seen as the central authorities with particular expertise and capacity in crisis preparation and management. *Spoke agencies* are other participants whose input is crucial to the overall success of crisis management which have individual areas of responsibility that may overlap with others and which are coordinated by the hub.

Planning

By their nature, most crises are unpredictable as to when they will occur and to what degree. But it is possible to determine activities and areas that may be particularly prone to crises and where crisis management is particularly needed. Planning in these areas can contribute to prevention as well as preparation.

It is important in these circumstances to keep under scrutiny the changing type, likelihood and severity of potential crises. Of course, some crises cannot be planned for, particularly where they take a new or previously unknown form.

But many crises arise from predictable events and planning can help ensure effective action is taken in these circumstances. It is the process of planning and the preparation for eventualities more so than the plans themselves that is vital to effective crisis management.

A Crisis Management Plan (CMP) is a document that describes the processes that an organisation should use to respond to a critical situation that could adversely affect its profitability, reputation or ability to operate. With regard to the development and contents of a crisis management plan itself, all crisis management plans should include:

- People involved and their tasks,
- Methods for identifying crises,
- Methods for involving management,
- Lines of communication,
- Mechanisms for reporting,
- Process for decision making,
- Equipment, facilities and occupation of crisis management center, as well as
- Levels of control and authority limits.

An important element of planning is preparing for different crisis scenarios. Even with known crises, such as pandemic outbreaks, the nature, type, speed, size and scope of the outbreak may vary considerably. In such circumstances, the development of different scenarios can help determine the most effective crisis response.

The Emergency Management Act 2005 governed emergency management and organisation in Western Australia (WA). The Act set out the hazards that agencies must prepare for including cyclones, fire, floods, air and rail

crashes, hazardous materials spills and human and animal epidemics. It allocated the responsibility for their management to a number of hazard management agencies (HMAs).
However, an audit revealed that there was no formal process for regularly reviewing and deciding which hazards the state should prepare. For example, there was no plan for energy or gas shortages. This indicated the need for periodic scrutiny and updating of potential crisis situations.

Exercises

Simulation exercises provide important training and testing for people who will be involved in managing an actual crisis. As with all aspects of crisis management preparation, they do not provide ready-made answers. Crises are chaotic and unpredictable, and simulation exercises, however life-like, can never fully prepare organisations.
Exercises are nevertheless an important element in good crisis management and can contribute to more effective actions and decision making. There are two main types of crisis exercise:

- *Discussion-based exercises* include seminars, workshops, tabletop exercises and gaming. Such exercises can be relatively cost-effective and particularly useful as an initial introduction for personnel to crisis situations and as a way of thinking about new and emerging threats. Gaming exercises bring elements of stress and increased realism.
- *Operations-based exercises* include drills, functional and full-scale exercises. Functional exercises involve one or more agencies and focus on testing one aspect of crisis response, such as emergency medical services in the event of a terrorist attack. Full-scale exercises involve testing all major functions and responders in a situation as close as possible to a real crisis situation. These exercises are hands-on in real-time and can be highly realistic. They are particularly useful for preparing for larger-scale crises involving many agencies and where significant numbers are affected. They can also be very expensive, both financially and in terms of personnel resources and time.

In California, the "*Golden Guardian Exercise Series*" is an annual training exercise used to develop, conduct, and assess state-wide preparedness for a variety of crises. The exercise aims to coordinate the activities of all levels of government, first responders, volunteer organisations and the private sector in response to potential acts of terrorism and catastrophic disasters. For example, there were exercises regarding terror attacks (2010), a catastrophic earthquake (2013), a tsunami (2014) or cyber-attacks (2017). The goal of the Golden Guardian Exercise Series is to continually improve emergency preparedness capacity by building from the lessons learned from the exercises.

Assessment

With regard to planning and the conduct of crisis exercises, in terms of assessing the preparedness of organisations for crisis management, a typology of organisational preparedness enables managers to rate their own organisation's preparedness, as illustrated in the following example of an *Crisis-Preparedness Matrix:*

Such an assessment of crisis preparedness can serve a useful purpose for managers to help determine areas of existing *good practice* and *poor practice*. This in turn can help highlight areas that are in need of attention and where actions need to be taken to improve the situation.
For example, if the assessment shows that there is only limited preparedness through the use of trials and simulations, this could indicate the need for the conduct of or participation in a crisis exercise.

Management

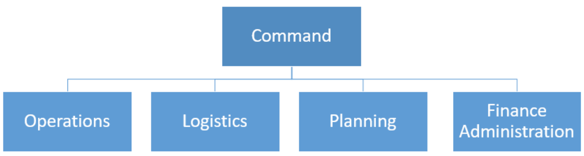
There is a difference between planning for a crisis and actually dealing with a crisis. The *management phase* deals with issues such as clear structures and a fitting command system, the role of leadership, communications, and the use of modern technologies.

Clear Structures

There is a real-life tension between preparing for a crisis and actually dealing with a crisis. The more complex a plan is, the more likely it is to be ignored in an actual crisis as no one has the time to go through it in detail. Often, responses to crises need to be thought out on the spot, though guided by previous thinking and practice.

	PREPAREDNESS		
	low	medium / mixed	high
Importance of crisis planning for the organisation	Little or no importance. Not an item for serious consideration.	Fairly important on occasion, but normally of less priority than routine organisational goals.	Very high. Crisis preparedness part of the core goals of the organisation.
Attitude to threats	Dismissive. 'It couldn't happen here' mentality.	Fairly serious consideration. A range of threats recognised and planned for.	Very serious consideration. Organisation gives high priority to planning for a range of threats.
Extent of crisis planning	None at all, or at best ignored with little or no awareness by staff.	Fairly detailed and extensive planning as an add-on to existing practice.	Very detailed and extensive crisis planning, permeating the structures, practices and culture of the organisation.
Extent of active readiness through trials and simulation	Non-existent.	None or patchy. Plans on paper are considered adequate.	Highly active readiness through regular crisis training and exercises.

To address such issues, crisis planning often aims to identify lines of authority, roles and responsibilities and means of coordination, leaving key individuals with a significant amount of autonomy to act as appropriate to the circumstances.
While the flexibility of response is important, so is the need for clear structures when managing a crisis. Lessons from the USA during and after the 9/11 attacks in 2001 and Hurricane Katrina in 2005 show the benefits that an effective *Incident Command System (ICS)* can bring and how its absence can cause problems.
An ICS essentially creates a simple command and control system within which staff from different agencies should be placed. It imposes a hierarchy on a network. Structurally, the ICS organises functions by critical management systems: planning, operations, logistics, and administration/finance. Each function reports to a single commander who has decision-making power for the ICS. The basic structure of an ICS is illustrated below:



An effective ICS is particularly helpful where crises require a response from a network of organisations and where there is potential for confusion as to lines of command given the number of different players involved.
As with all aspects of crisis management, however, such standardised reporting and operating procedures need constant reviewing to ensure that they are being used effectively and not creating additional problems of their own. Where the crisis involves a sharp discontinuity with past events and is towards the unknown end of the scale, there is a danger that standardisation can limit flexible responses that need to be developed. Standardisation can encourage sticking with 'tried and tested' ways of doing things rather than encouraging the un-learning of failed activities in a situation that requires new thinking.

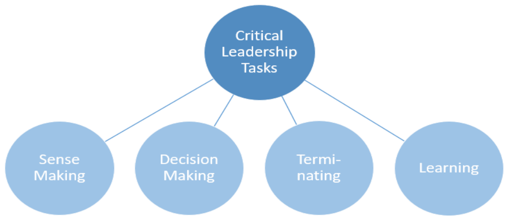
Leadership

In the early stages of a crisis, leaders need to assess what information is crucial and what information they need to gather. There may be a paradoxical danger of information overload in some areas and a complete lack of information in others. For crises that appear out of the blue, information which leaders want includes:

- How many casualties?
- What damage has been done?

- Were the causes accidental?
- Is there a possibility of further threats?

If answers to these questions are not available, an alternative is to determine what has not been affected – what is still intact. A crisis leader needs a sense of the available useful information and the information gaps.
Leaders also have an important role in authorising the action of others. Leaders do not have the capacity to respond to all situations themselves, and this requires the authorisation of speedier decision-making than that normally associated with traditional hierarchies. In a similar vein, leaders can usefully know when to call in outside help which can provide necessary expertise not available otherwise.
There are four critical tasks that leaders engage in and generally are good at during a crisis:



1. Sense making:
Some crises are readily apparent, but others unfold and produce vague, ambivalent and contradictory signals. Leaders interpret these signals and define the crisis. Leaders are expected to reduce uncertainty by providing information on what is happening and what needs to be done.
2. Decision making:
Decision making in a crisis often involves trade-offs and significant risks. Effective crisis responses also require the coordination of many different groups and agencies. Leaders make crucial decisions themselves, and also know when to delegate decision making.
3. Terminating:
It is a leadership task to determine how and when a crisis should and can be terminated, shifting back from emergency to routine. This also involves ensuring that the system of governance is re-stabilised.
4. Learning:
Leaders ensure that there is lesson drawing from the crisis, both organisational and political. The crisis offers lessons for future emergency planning and the training of officials to handle future crises.

Communications

Particularly with regard to external communications with the public and media, a significant part of crisis management is about managing the message in situations that do not lend themselves easily to routine communications.
External communications are vital for both operational and symbolic purposes during a crisis. Operationally, consistent external communications may enhance messages sent to front-line response teams who can be feeling isolated. Communications can inform the media and citizens of what, if anything, they should be doing to minimise the impact of the crisis. Symbolically, communications can foster a positive image of crisis response, provide an opportunity to empathise with those affected by the crisis, and demonstrate the will to resolve the crisis.
In order to manage this communications process well, we highlight a number of communication pathologies to avoid:

- the impression of a slow or ineffective response,
- the impression of having something to hide, i.e. the 'no comment' trap,
- accidentally or purposefully giving out false information,
- inconsistent messages from different actors or layers of government,
- rush to judgment and
- expressing a lack of sympathy.

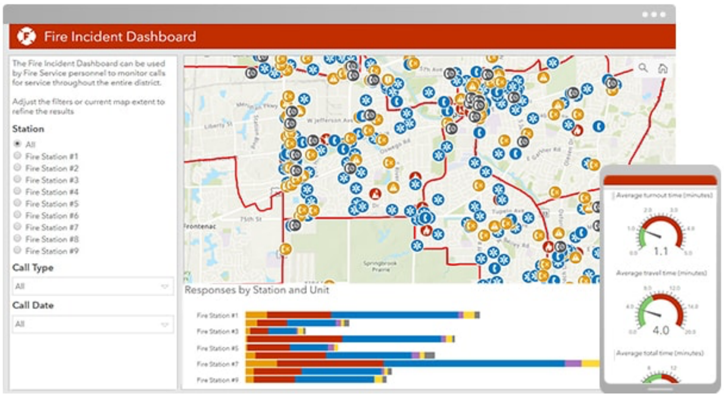
Such communications pathologies can have the impact of exacerbating a crisis. Poor communications and public relations can significantly worsen the impact of or public perception of a crisis and how it is being managed.

For example, after the space shuttle Challenger explosion in 1986, the National Aeronautics and Space Administration (NASA) delayed contact with the media for some time while they went in search of details. When they finally made a presentation on air, all they did was repeat what millions of viewers had already seen. This was the first of several public relations blunders in the ensuing crisis.

New Technologies

For both communications and other aspects of crisis management, the application of newer technologies can provide important supports, as well as significant new challenges. The use of e-mail, Facebook, YouTube, LinkedIn, Twitter, and other social networking tools to facilitate discussion, debate, and the exchange of ideas on a worldwide scale is a reality which public managers must take into account in crisis management. Information and disinformation can be spread rapidly through these new media as well as more traditional media outlets.

New technologies can be used to enable organisations to track, disseminate and communicate information during a crisis. For example in St. Louis (US), fire and police departments use an incident management software tool to facilitate the collaboration of first response agencies (see example below).



Particularly when dealing with non-government agencies and individuals, modern technologies and platforms can be an important tool of communication.

Also in the US, Benton County suffered communications difficulties between agencies during a fire crisis due to the use of different equipment and poor coordination between different systems. The various agencies are now connected regardless of what communications devices they use, thanks to a new technology-powered, mobile communications unit.

This last example illustrates the importance of compatibility of technologies between different agents during crises. This is an area that can usefully be addressed in the preparing for crisis phase of the crisis management cycle.

Evaluation

The *evaluation phase* deals with issues such as post-crisis lesson learning, debriefing and accountability. Crises create great potential for learning from the successes and failures in addressing the crisis as well as promoting accountability for actions taken during the crisis.
However, there is always the danger that such inquiries and evaluations can get overtaken by political fighting between those looking for radical change after a crisis, and those wishing to broadly maintain the status quo.

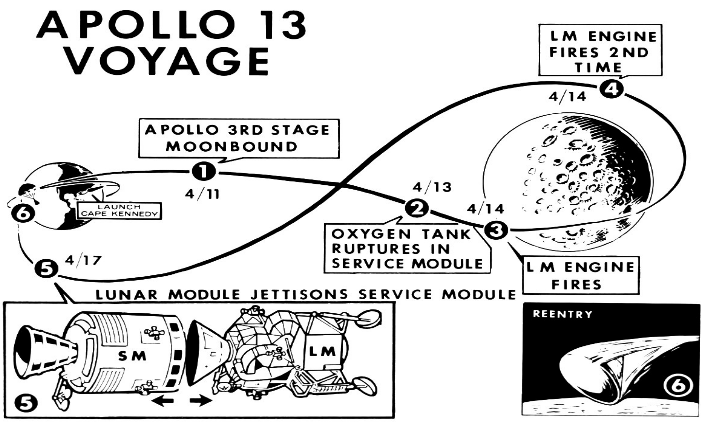
A number of investigations after the *space shuttle Challenger explosion i*n 1986 called attention to the fact that people within engineering areas repeatedly expressed concern about the potential dangers of launching the Challenger under low-temperature conditions. However, people at the top of the organisation reported never having heard anything about such concerns. Information filtering can lead to a reduced organisational capacity to make operationally difficult decisions. Over time attenuation of information, especially if it relates to the core functions of sub-systems, can lead to “organisational blindness”. Such cultural phenomena have been said to manifest readily in pre-crisis incubation periods.
The culture of organisations can often influence the degree to which they actually learn from crises. Organisations where safety is at the heart of what they do, such as air traffic control or fire fighting services, have systems and cultures that support learning and are keen to identify failures and do what they can to eradicate them.

In more traditional public organisations, post-crisis learning has to compete with the day-to-day goals of the organisation, and may not be as deeply embedded in the culture. This is something that leaders and managers need to give attention to.
Organisations need to give particular attention to their capacity to learn. This is a particular challenge when the crisis and its impacts cut across agencies, and cross-organisational learning is needed, as the case study on shared learning across agencies illustrates.
Learning can range from operational improvements that enhance crisis response in the future to more fundamental reviews of organisational and system-wide capacity.

Apollo 13 Example

The American Apollo 13 lunar mission in 1970 became one of the greatest death-defying adventures in history. The three crew members, along with support from their ground team, allowed for a successful return, averting what everyone thought would surely be a fatal mission.
Background
Apollo 13 was the third crewed space mission to land on the Moon. The craft was launched from Kennedy Space Center on April 11, 1970, but the lunar landing was aborted after the rocket suffered catastrophic damage by a burst oxygen tank two days into the mission.

"Houston, we've had a problem."
– Jim Lovell, Apollo 13 mission commander
The crew was forced to use the lunar module as a lifeboat back to earth. Although the module was designed to support two men on the lunar surface for two days, Mission Control in Houston improvised new procedures so it could support three men for four days. The crew experienced great hardship caused by limited power, a cold cabin, and a shortage of water. Finally, the crew was able to loop around the Moon and returned safely to Earth on 04/17



Lessons to Learn

The Apollo 13 mission is often described as a "successful failure": a failure since it never achieved the prime objective of landing on the moon, successful because all employees who worked for NASA pulled together in an astounding feat of teamwork to save the crew. That being said, there are six lessons to take away from the Apollo 13 mission:

- *Remain Calm and Focused***.** Stay calm and try to identify the problem. Once you have done that, it's time to prioritise and execute. As Apollo 13 flight director Gene Kranz put it, "One at a time, people. One at a time." Identify the issue and take steps to improve your situation.
- *Be Prepared***.** Keep some kind of emergency equipment and plans on hand. Having the proper equipment available, and knowing how to use it, could make all the difference.
- *Be Flexible***.** As astronaut Fred Haise said, "We had to have Plan B and C and D and on and on." Hundreds of people at NASA worked simultaneously on ideas to rescue the crew.
- *Seek Help***.** Whatever the emergency is, you may not be able to deal with it yourself. Jim Lovell's famous "Houston, we've had a problem," was his call for help. Recognise the strengths of those around you and enlist their help when needed.
- *Assess and Manage Risks.* Good risk management techniques are essential. NASA had to adjust on the fly during Apollo 13, but many of its improvisations were worked in advance because the organisation had done a good job of identifying risks.

- *Learn from the crisis.* Since the Apollo 13 incident, NASA has taken dramatic steps to ensure its astronauts are better prepared than ever by improving training and simulations. They have contingency plans in place for incidents they never would've thought of before – because the most dangerous emergency is the one you never see coming.

Conclusion

A crisis is a change, which may be sudden or which may take some time to evolve, which results in an urgent problem that must be addressed immediately. Crisis management is the process of identifying a potential crisis and coordinating organisational or inter-organisational responses.
Two broad lessons emerge from this review of crisis management:

One is that there are a number of *tools, techniques and procedures* that can be of invaluable assistance to managers in preparing for and dealing with a crisis. Developing crisis management plans, envisaging and preparing for alternative scenarios, and using exercises to simulate crises can all be helpful in preparing for a crisis. During a crisis, using an Incident Command System (ICS) and communication planning are amongst the things that can help ensure an effective response.

The second broad lesson is that all of these supports have *limitations*, and if used incorrectly can make the crisis worse rather than better. There can be no replacement for good judgment and leadership in these circumstances. Flexibility of response within clearly defined parameters is needed. There is no simple set of principles of effective crisis management which if followed will lead to positive conclusions. Crises are messy, unprecedented and unpredictable in their actual on-the-ground impact.

Public organisations need to anticipate and prepare for a wide range of crises they may need to respond to. Some of these are large scale and with widespread impacts, such as pandemics or terrorist attacks. Others are smaller in nature but no less of a crisis to those affected, such as a fire at a public building or localised serious water contamination. Using a blend of support tools and good judgment, public leaders at all levels in organisations can help ensure that such crises are handled as well as possible to the benefit of society as a whole.

Endnotes

Abell, D.F., 1993. Managing with Dual Strategies: Mastering the Present, Preempting the Future. The Free Press: New York.
Abraham, R., 1997. The relationship of vertical and horizontal individualism and collectivism to intrapreneurship and organizational commitment. Leadership & Organization Development Journal: Bingley.
Adenfelt, M. and Lagerström, K., 2008. The Development and Sharing of Knowledge by Centres of Excellence and Transnational Teams: A Conceptual Framework. Management International Review: Wiesbaden.
Aerssen, B.v., 2009. Revolutionäres Innovations management: Mit Innovationskultur und neuen Ideen zu nachhaltigem Markterfolg. FinanzBuch Verlag: München.
Aldrich, H.E., 2008. Organizations and Environments. Stanford University Press: Stanford.
Ambos, B., Schlegelmilch, B. B., 2008. Innovation in Multinational Firms: Does Cultural Fit Enhance Performance? Management International Review: Wiesbaden.
Anderson, T., Curley M.G. and Formica, P., 2010. Knowledge-Driven Entrepreneurship: The Key to Social and Economic Transformation. Springer Verlag: Heidelberg.
Andrews, K.R., 1987. The Concept of Corporate Strategy. 3rd ed. Irwin: Illinois. Ansoff, I.H., 2007. Strategic Management. Palgrave MacMillan: New York.
Antoncic, B., 2007. Intrapreneurship: a comparative structural equation modeling study. Industrial Management & Data Systems: Bingley.
Antoncic, B. and Hisrich, R.D., 2003. Clarifying the intrapreneurship concept. Journal of Small Business and Enterprise Development: Bingley.
Antoncic, B. and Hisrich, R.D., 2004. Corporate entrepreneurship contingencies and organisational wealth creation. Journal of Management Development: Bingley.
Antoncic, J.A. and Antoncic, B., 2011. Employee satisfaction, intrapreneurship and firm growth: a model. Industrial Management & Data Systems: Bingley.
Argyris, C., 1957. Personality and Organisation. Harper & Brothers: New York. Argyris, C., 1999. On Organisational Learning. 2nd ed. Blackwell Publishers: Oxford.
Argyris, C. and Schön, D.A., 1999. Die lernende Organisation: Grundlagen, Methode, Praxis. Klett-Cotta: Stuttgart.
Ashby, W. R., 1956. An Introduction to Cybernetics. Chapman and Hall: London.
Aupperle, K.E., Acar, W. and Booth, D.E., 1986. An empirical critique of In Search of Excellence: How excellent are the excellent companies? Journal of Management: Bingley.
Autio, E., George, G. and Alexy, O., 2011. International Entrepreneurship and Capability Development: Qualitative Evidence and Future Research Directions. Entrepreneurship Theory and Practice: Waco / Oxford.
Axelrod, R., 1987. Die Evolution der Kooperation. Oldenbourg: München.
Axelrod, R. and Cohen M.D., 2000 Harnessing Complexity. Basic Books: New York.
Baden-Fuller, C. and Stopford, J.M., 1994. Rejuvenating the Mature Business: the competitive challenge. Harvard Business School Press: Boston.
Baghai, M. and Quigley, J., 2011. As One: individual action, collective power. Penguin Group: London.
Baltzan, P. and Phillips, A., 2008. Business-driven Information Systems. Mc Graw-Hill: Maidenhead.
Barringer B.R. and Ireland R.D., 2006. Entrepreneurship: Successfully Launching New Ventures. Pearson: New Jersey.
Bartlett C.A. and Ghoshal S., 2002. Managing Across Borders: The Transnational Solution . Harvard Business School Press: Boston.
Bateman, T.S. and Snell, S., 1996. Management: Building Competitive Advantage. 3rd ed. Irwin Professional: Chicago.
Baumol, W.J., 2002a. Towards Microeconomics of Innovation: Growth Engine Hallmark of Market Economics. Atlantic Economic Journal: Dordrecht.
Baumol, W.J., 2002b. The Free-Market Innovation Machine: Analysing the Growth Miracle of Capitalism. Princeton University Press: Princeton.
Baumol, W.J., 2004. Entrepreneurial Enterprises, Large Established Firms and other components of the Free-Market Growth Machine. Small Business Economics: New York.
Baumol, W.J., 2010. The Microtheory of Innovative Entrepreneurship. Princeton University Press: Princeton.
Baumol, W.J., Litan, R. E. and Schramm, C. J., 2007. Good Capitalism, Bad Capitalism, and the economics of Growth and Prosperity. Yale University Press: New Haven.
Bea, F.X. and Göbel, E., 2002. Organisation. 2. Auflage. Lucius & Lucius: Stuttgart.
Bea, F.X. and Haas, J., 2005. Strategisches Management. 4. Auflage. Lucius & Lucius: Stuttgart.
Becke, G., 2010. Auf dem Weg zur Nachhaltigkeit: Vom Change Management zum Mindful Change. Organisationsentwicklung: München.

Beer, S., 1959. Kybernetik und Management. S. Fischer Verlag: Frankfurt am Main. Beer, S., 1979. The Heart of Enterprise. John Wiley and Sons: Chichester.

Beer, S., 1995. The Brain of the Firm. 4th ed. John Wiley and Sons: Chichester.

Beer, S., 2003. Diagnosing the System for Organisations. John Wiley and Sons: Chichester.

Behravesh, N., 1998. The Role of economic szenarios. In: Fahey L. and Randall R.M., 1998. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.

Beinhocker, E., Davis, I. and Mendonca, L., 2009. Wie die Welt nach der Krise aussieht, Harvard Business Manager: Hamburg.

Belbin, R.M., 1996. Management teams: Erfolg und Misserfolg. Verlag Bergander Team und Führungsentwicklung: Wörrstadt.

Benecke, G., Schurink, W. and Roodt, G., 2007. Towards a Substantive Theory of Synergy. In: SA Journal of Human Resource Management: Tygervalley.

Bergmann, G. and Daub, J., 2006. Systemisches Innovations- und Kompetenzmanagement: Grundlagen, Prozesse, Perspektiven. Gabler Verlag: Wiesbaden.

Berkhout, A.J., Hartmann, D., Duin, P.v.d. and Ortt, R., 2006. Innovating the innovation process. International Journal of Technology Management: Geneve.

Berkhout, A.J., Duin, P.v.d., Hartmann, D. and Ortt, R., 2007. The cyclic nature of innovation: Connecting hard sciences with soft values. Elsevier: Amsterdam.

Bertalanffy, L.v., 2008. General System Theory. George Braziller: New York.

Besanko D., Dranove, D., Shanley M. and Schaefer, S., 2007. Economics of Strategy. 4th ed. John Wiley and Sons: Hoboken.

Beschorner, T. and Pfriem, R., 2000. Evolutorische Ökonomik und Theorie der Unternehmung. Metropolis Verlag: Marburg.

Best, M.H., 2001. The new Competitive Advantage: The renewal of American Industry. Oxford University Press: New York.

Beugelsdijk, S., 2007. The Regional Environment and a Firm’s Innovative Performance: A Plea for a Multilevel Interactionist Approach. Economic Geography: Worcester.

Bhardwaj, B.R., Momaya, S. and Momaya, K., 2011. Drivers and enablers of corporate entrepreneurship: Case of a software giant from India. Journal of Management Development : Bingley.

Birkinshaw, J., 2000. Entrepreneurship in the Global Firm. Sage Publications: London.

Birkinshaw, J., 2010. The critical need to reinvent Management. Business Strategy Re- view: London.

Bitzer, M., 1991. Intrapreneurship: Unternehmertum im Unternehmen. Schäffer Verlag: Stuttgart.

Bleicher, K., 2004. Das Konzept Integriertes Management: Visionen – Missionen – Pro- gramme. 7. Auflage. Campus Verlag: Frankfurt/ Main.

Bleicher, K., 2005. Zum Wandel im Umgang mit Wandel – Vertrauen als kritischer Faktor. Texis: St. Gallen.

Blenko, M.W., Mankins, M.C. and Rogers, P., 2010. Das Entscheider-Prinzip, Harvard Business Manager: Hamburg.

Block, P., 1987. The Empowered Manager: Positive political Skills at work. Jossey-Bass Publishers: San Francisco.

Block, Z. and MacMillan, I.C., 1995. Corporate Venturing: Creating new businesses within the firm. Harvard Business School Press: Boston.

Bofinger, P., 2003. Grundzüge der Volkswirtschaftslehre: Eine Einführung in die Wissenschaft von Märkten. Pearson Studium: München.

Bofinger, P., 2009. Ist der Markt noch zu retten? Warum wir jetzt einen starken Staat brauchen. Ullstein Buchverlage: Berlin.

Bogner, A., Littig, B. and Menz, W., 2005. Das Experteninterview: Theorie, Methode, Anwendung. 2. Auflage. VS Verlag für Sozialwissenschaften: Wiesbaden.

Bollmann, S., 2001. Kursbuch Management: Die 30 wichtigsten Spielregeln für kompeten- tes Management. Deutsche Verlags Anstalt: Stuttgart.

Bortz, J., Döring, N., 1995. Forschungsmethoden und Evaluation für Sozialwissenschaft- ler. Springer Verlag: Berlin.

Bossel, H., 2004. Systeme, Dynamik, Simulation: Modellbildung, Analyse und Simulation komplexer Systeme. Books on Demand: Norderstedt.

Böhmer, M., Gramke, K., Meyer-Krahmer, K. and Schlesinger, M.,2007. Globalisierungs- report. Prognos: Basel.

Bouchard, V. and Basso, O., 2011. Exploring the links between entrepreneurial orientation and intrapreneurship in SMEs. Journal of Small Business and Enterprise Development: Bingley.

Brandenburger, A.M. and Nalebufft, B.J., 1996. Coopetition. Currency Doubleday: New York.

Brandt, S.C., 1986. Entrepreneuring in Established Companies. Nal Penguin Books: New York.

Brickley, J.A., Smith, C.W. and Zimmerman, J.L., 2004. Managerial Economics and Organisational Architecture. 3rd ed. McGraw-Hill: New York.

Brodbeck, P.W., 2002. Implications for organisation design: teams as pockets of excellence . Team Performance Management: An International Journal: Bingley.
Brown, D., 2007. Horizon scanning and the business environment – the implications for risk management. BT Technology Journal: London.
Brown J., 2005. The world Café: Shaping Our Futures Through Conversations that matter. Berrett Koehler Publishers: San Francisco.
Buckley, P.J., 2011. International Integration and Coordination in the Global Factory. Management International Review: Wiesbaden.
Burke, A., van Stel, A. and Thurik, R., 2010. Five Forces gegen Blue Ocean. Harvard Business Manager: Hamburg.
Burnes, B., 2004. Emergent change and planned change – competitors or allies? The case of XYZ construction. International Journal of Operations & Production Management: Bingley.
Burns, T. and Stalker, G.M., 2001. The Management of Innovation. Oxford University Press: Oxford.
Cameron, K.S. and Quinn R.E., 2006. Diagnosing and Changing Organisational Culture. Jossey Bass: San Francisco.
Čančer, V. and Mulej, M., 2006. Systemic decision analysis approaches: Requisite tools for developing creative ideas into innovations. Kybernetes: Bingley.
Capra, F., 2004. Wendezeit: Bausteine für ein neues Weltbild. Knaur Taschenbuch: Mün- chen.
Chandler, A.D., 1962. Strategy and structure: Chapters in the History of the American Industrial Enterprise. Beard Books: Washington D.C.
Chandler, A.D., 2004. Scale and Scope: The Dynamics of Industrial Capitalism. 7th Print- ing. The Belknap Press of Harvard University Press: Cambridge.
Chase, R.B. and Aquilano N.J., 1992. Production & Operations Management: A Life Cycle Approach. 6th ed. Irwin: Boston.
Checkland, P. and Holwell, S., 1998. Information, Systems and Information Systems: making sense of the field. John Wiley & Sons: Chichester.
Checkland, P., 2008. Soft Systems Methodology: A 30-year retrospective. In: Checkland, P., 2008. Systems Thinking, Systems Practice. John Wiley & Sons: Chichester.
Child, J., 2005. Organisation: Contemporary Principles and Practice. Blackwell Publishing: Oxford.
Cholle, F.P., 2012. The intuitive compass: Why the best decisions balance reason and instinct. Jossey-Bass: San Francisco.
Chowdhury, S., 2000. Die Zukunft des Managements. In: Chowdhury, S., 2000. Management 21C: Führung, globales Business und Organisation im 21. Jahrhundert. Pearson Education: München.
Cohn, J., Katzenbach, J. and Vlak, G., 2009. Wie Sie Innovatoren finden und fördern. Harvard Business Manager: Hamburg.
Collins, J. C. and Porras, J.I., 1995. Building your Company's Vision. Harvard Business Review: Boston.
Collins, J., 2008. Der Weg zu den Besten: Die sieben Prinzipien für dauerhaften Unter- nehmenserfolg. 8. Auflage. DTV: München.
Cooper, A.C., 2002. Network, Alliances, and Entrepreneurship. In: Hitt M.H., Ireland R.D., Camp S.M. and Sexton D.L., 2002., Strategic Entrepreneurship. Blackwell Publishing: Malden.
Cooper, D.R. and Schindler, P.S., 1998 (2010). Business Research Methods. 6th (11th) ed. Irwin/ McGraw Hill: Boston.
Corbetta, G., Huse, M. and Ravasi, D., 2004. Crossroads of Entrepreneurship. Springer Science+Business Media: New York.
Covin, J.G. and Slevin, D.P., 1991. A conceptual model of Entrepreneurship as Firm Behaviour. Entrepreneurship Theory and Practice: Waco / Oxford.
Czernich, C. and Zander, I., 2009. The Intraorganizational Ecology of Corporate Entrepreneurship. Academy of Management Proceedings: Briar Cliff Manor.
Daniels, J.D., Radebaugh, L.H. and Sullivan, D.P., 2007. International Business: Environments and Operations. 11th ed. Pearson Education: New Jersey.
Davis, S.M., 1984. Managing Corporate Culture. Ballinger Publishing Company: Cam- bridge.
Dawson, L.M., 1969. The Human Concept: New Philosophy for Business. Business Hori- zons: Bloomington / Stanford.
Deal, T.E. and Kennedy, A.A., 1982. Corporate Cultures: The Rituals of Corporate Life. Basic Books: New York.
De Bono, E., 1989. Chancen: Das Trainingsmodell für erfolgreiche Ideensuche. Econ Ver- lag: Düsseldorf.
De Bono, E., 1995. Edward de Bono's Denkschule: Zu mehr Innovation und Kreativität. Orbis Verlag: München.
De Geus, A., 2002. The Living Company: Habits for Survival in a Turbulent Environment. Harvard Business School Press: Boston.
Decker, F., 1995. Buildings management für eine neue Praxis. AOL Lexika Verlag: Mün- chen.

Dess, G.G., Lumpkin, G.T. and McKee, J.E., 1999. Linking Corporate Entrepreneurship to Strategy, Structure, and Process: Suggested Research Directions. Entrepreneurship The- ory and Practice: Waco / Oxford.
Dess, G.G. and Lumpkin, G.T., 2003. Strategic Management: Creating Competitive Ad- vantages. McGraw-Hill: New York.
Dhliwayo, S., 2010. The Entrepreneurial Organisation. In: Urban, B., 2010. Frontiers in Entrepreneurship. Springer-Verlag: Berlin.
Dillerup, R. and Stoi, R., 2008. Unternehmensführung. 2. Auflage. Vahlen: München.
Dörner, D., 2006. Die Logik des Misslingens: Strategisches Denken in komplexen Situationen. 5. Auflage. Rowohlt Taschenbuch Verlag: Reinbek.
Draeger-Ernst, A., 2003. Vitalisierendes Intrapreneurship: Gestaltungskonzept und Fall- studie. Rainer Hampp Verlag: München.
Drew, S.A.W., 2006. Building technology foresight: using scenarios to embrace innovation. European Journal of Innovation Management: Bingley.
Drucker, P.F., 1978. The Age of Discontinuity: Guidelines to our changing society. Harper Colophon Books: New York.
Drucker, P.F., 1985. Innovations-Management für Wirtschaft und Politik. 2. Auflage. Econ Verlag: Düsseldorf.
Drucker, P.F., 1993. Die ideale Führungskraft. Econ Verlag: Düsseldorf.
Drucker, P.F., 2007. Was ist Management. 5. Auflage. Ullstein: Berlin.
Dubin, R., 1969. Theory Building. The Free Press: New York.
Dunphy, D., Griffiths, A. and Benn, S., 2007. Organisational Change for corporate sustainability: A guide for leaders and change agents of the future. 2nd ed. Routledge: Oxon.
Duin, P.v.d., Hazeu, C., Rademaker, P. and Schoonenboom, J., 2005. The future revis- ited: Looking back at the next 25 years by the Netherlands Scientific Council for Government Policy (WRR). Futures: Amsterdam.
Duin, P.v.d., Ortt, R. and Kok, M., 2007. The Cyclic Innovation Model: A new Challenge for a Regional approach to Innovation Systems? European Planning Studies: London.
Duin, P.v.d., 2006a. The use of scenarios in innovation processes: Two case studies. Second International Seville Seminar on Future-Oriented Technology Analysis – Impact of FTA-Approaches on Policy and Decision-Making: Seville.
Duin, P.v.d., 2006b. Qualitative futures research for innovation. Eburon Academic Publishers: Delft.
Duin, P.v.d., Ortt, J.R., Hartmann, D. and Berkhout, G., 2006. Innovation in Context: from R&D management to innovation networks. In: Verburg, R.M., Ortt, J.R. and Dicke, W.M., 2006. Managing Technology and Innovation: An Introduction. Routledge: Abingdon.
Duin, P.v.d., 2007. Knowing tomorrow?: How science deals with the future. Eburon Aca- demic Publishers: Delft.
Dülfer, E., 1997. Internationales Management in unterschiedlichen Kulturbereichen. 5. Auflage. R. Oldenbourg Verlag: München.
Dülfer, E. and Jöstingmeier, B., 2008. Internationales Management. 7. Auflage. Olden- bourg: München.
Duncan, W.J., 1975. Essentials of Management. The Drydan Press: Hinsdale.
Ebert, W., 2006. Anreizgestützte Innovationsförderung in technologieorientierten KMU: Konzept, Empirische Untersuchung, Gestaltungsempfehlungen. Rainer Hampp Verlag: München.
Ekardt, F., 2005. Das Prinzip Nachhaltigkeit: Generationengerechtigkeit und globale Ge- rechtigkeit. Verlag C. H. Beck: München.
Emery F.E. and Trist E.L., 1965. The Causal texture of organizational environments. In: Emery, F.E., 1969. Systems Thinking. Penguin Books: Middlesex.
Espejo, R., Schuhmann, W., Schwaninger, M. and Bilello, U., 1996. Organisational transformation and learning: a cybernetic approach to management. John Wiley & Sons: Chichester.
Fahey, L. and Narayanan, V.K., 1986. Macro-environmental Analysis for Strategic Management. West Publishing Company: St. Paul.
Fahey, L. and Randall, R.M., 1998a. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.
Fahey, L. and Randall, R.M., 1998b. What is scenario learning. In: Fahey, L. and Randall R.M., 1998. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.
Fahey, L. and Randall, R.M., 1998c. Integrating strategy and szenarios. In: Fahey, L. and Randall R.M., 1998. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.
Fahey, L., 1998a. Industry szenarios. In: Fahey, L. and Randall, R.M., 1998. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.
Fahey, L., 1998b. Competitor Scenarios: Projecting a rival's marketplace strategy. In: Fahey, L. and Randall, R.M., 1998. Learning from the Future: competitive foresight scenarios. John Wiley & Sons: New York.
Farrell, L.C., 2001. The Entrepreneurial Age: Awaking the Spirit of Enterprise in People, Companies and Countries. Allworth Press: New York.
Fayerweather, J., 1970. International Marketing. 2nd ed. Prentice-Hall: New Jersey.

Fayerweather, J., 1978. International Business Strategy and Administration. Ballinger Publishing Company: Cambridge.
Fiedler-Winter, R., 2001. Idea management: Mitarbeitervorschläge als Schlüssel zum Erfolg. mi Verlag moderne Industrie: Landsberg.
Fillis, I., 2010. The role of creativity in entrepreneurship. Journal of Enterprising Culture: Singapore.
Fink, A., Schlake, O. and Siebe, A., 2001. Erfolg durch Szenario-Management: Prinzip und Werkzeuge der strategischen Vorausschau. Campus Verlag: Frankfurt.
Floyd S.W. and Wooldridge, B., 1999. Knowledge Creation and Social Networks in Corpo- rate entrepreneurship: The Renewal of Organizational Capability. Entrepreneurship The- ory and Practice: Waco / Oxford.
Formica, P., 2007. Innovation: Knowledge Models and Tools. University of Tartu – Centre for Entrepreneurship: Tartu.
Forgang, W.G., Einolf, K.W., 2007. Management Economics: An Accelerated Approach. M.E. Sharp: New York.
Forrester, J.W., 1971. Der teuflische Regelkreis: Das Globalmodell der Menschheitskrise. Deutsche Verlags-Anstalt: Stuttgart.
Foster, R.N., 2006. Innovation: Die technologische Offensive. Redline Wirtschaft: Heidel- berg.
Frank, H., 2006. Corporate Entrepreneurship. Facultas: Wien.
Frank, R.H., 1992. Die Strategie der Emotionen. R. Oldenbourg Verlag: München.
Franke, N., 2004. Intrapreneurship – Konzept und historischer Bezug. Hernsteiner Fachzeitschrift für Managemententwicklung: Wien.
Frankl, V.E., 2006. Das Leiden am sinnlosen Leben: Psychotherapie für heute. 17. Aufla- ge. Herder: Freiburg.
Frese, E., 1992. Organisationstheorie: Historische Entwicklung – Ansätze – Perspektiven. Gabler: Wiesbaden.
Friedmann, T.L., 2006. The world is flat: The Globalized World in the twenty-first Century. Penguin Books: London.
Fuchs, M. and Apfelthaler, G., 2009. Management internationaler Geschäftstätigkeit. Springer-Verlag: Wien.
Friedrich, K., Malik, F. and Seiwert, L., 2010. Das große 1x1 der Erfolgsstrategie: EKS – Erfolg durch Spezialisierung. 14. Auflage. Gabal Verlag: Offenbach.
Garcia-Morales, V.J. and Llorens-Montes, F.J., 2006. Antecedents and consequences of organisational innovation and organizational learning in entrepreneurship. Industrial Management & Data Systems: Bingley.
Gartner, W.B., 1989. “Who Is an Entrepreneur?” is the Wrong Question. Entrepreneurship Theory and Practice: Waco / Oxford.
Gartner, W.B., 2001. Is there an Elephant in Entrepeneurship? Blind assumptions in Theory Development. Entrepreneurship Theory and Practice: Waco / Oxford.
Garvare, R. and Johansson, P., 2010. Management for sustainability: A stakeholder theory. Total Quality Management & Business Excellence: London.
Geisendorf, S., 2004. Kreativität und der Stellenwert des Neuen. In: Held, M., Kubon- Gilke, G. and Sturm, R., 2004. Normative und institutionelle Grundfragen der Ökonomik: Ökonomik des Wissens. Metropolis Verlag: Marburg.
Gharajedaghi, J., 2006. Systems Thinking: Managing Chaos and Complexity, A Platform for Designing Business Architecture. 2nd ed. Butterworth-Heinemann: Burlington.
Ghemawat, P., 2007. Redefining Global Strategy: Crossing Borders in a world where Dif- ferences still matter. Harvard Business School Press: Boston.
Ghillyer, A.W., 2011. Management: A real world approach. 2nd ed. Mc Graw-Hill: Maiden- head.
Gilbert, C.G. and Eyring, M.J., 2010. Wie Gründer Risiken managen. Harvard Business Manager: Hamburg.
Girotra, K., Terwiesch, C. and Ulrich, K.T., 2010. Idea Generation and the Quality of the Best Idea. Management Science: Hanover.
Gladwell, M., 2002. Tipping Point: Wie kleine Dinge Großes bewirken können. 4. Auflage. Wilhelm Goldmann Verlag: München.
Gläser, J. and Laudel, G., 2009. Experteninterviews und qualitative Inhaltsanalyse. 3. Auflage. VS Verlag für Sozialwissenschaften: Wiesbaden.
Glenn, J.C. and Gordon, T.J., 2002. Creating a better world: 15 global challenges. Fore- sight: Bingley.
Govindarajan, V. and Trimble, C., 2005. Building Breakthrough Businesses within Established Organisations. Harvard Business Review: Bosten.
Graf, H.G., 1999. Prognosen und Szenarien in der Wirtschaftspraxis. Carl Hanser Verlag: München, 1999.
Graf, H.G., 2000. Globale Szenarien: Megatrends im weltweiten Kräftespiel. NZZ Verlag: Zürich.
Graf, H.G., 2005. Economics & Management: Zusammenhänge der Wirtschaftswelt. Ver- lag Rüegger: Zürich.
Grant, R.M., 2005. Contemporary Strategy Analysis. 5th ed. Blackwell Publishing: Malden.
Grant, R.M. and Nippa, M., 2006. Strategisches Management: Analyse, Entwicklung und Implementierung von Unternehmensstrategien. 5. Auflage. Pearson: München.
Greiner, L.E., 1998. Evolution and Revolution as Organisations Grow. Harvard Business Review: Boston.
Grunwald, A. and Kopfmüller, J., 2006. Nachhaltigkeit, Campus Verlag: Frankfurt / Main.

Gupta, A.K., Govindarayanan, V. and Wang, H., 2008. The Quest for Global Dominance: Transforming Global Presence into global Competitive Advantage. 2nd ed. Jossey-Bass: San Francisco.
Guth, W.D. and Ginsberg, A., 1990. Guest editor's Introduction: Corporate Entrepreneur- ship. Strategic Management Journal: Chicago / Chichester.
Haid, D., 2004. Corporate Entrepreneurship im strategischen Management: Ansatz zur Implementierung des Unternehmertums im Unternehmen. DUV: Wiesbaden.
Haines, S.G., 1998. Systems Thinking & Learning. HRD Press: Amherst.
Hamel, G. and Prahaland C.K., 1994. Competing for the future. Harvard Business School Press: Boston.
Hamel, G., 2006. The why, what, and how of Managementinnovation. Harvard Business Review: Boston.
Hamel, G., 2008. Das Ende des Managements: Unternehmensführung im 21. Jahrhundert. Econ: Berlin.
Hammer, M., 1997. Das prozesszentrierte Unternehmen, die Arbeitswelt nach dem reengineering. Campus Verlag: Frankfurt am Main.
Hansen, M.T. and Birkinshaw, J., 2007. The Innovation Value Chain. Harvard Business Review: Boston.
Harford, T., 2011. Adapt: Why success always starts with failure. Little Brown: London.
Harnden, R.J., 1990. The Languaging of Models: The Understanding and Communication of Models with Particular Reference to Stafford Beer's Cybernetic Model of Organization Structure. Systemic Practice and Action Research: New York.
Hartschen, M., Scherer, J. and Brügger, C., 2009. Innovationsmanagement: Die 6 Phasen von der Idee zur Umsetzung. Gabal Verlag: Offenbach.
Harzing, A.-W. and Ruysseveldt, J.V., 1995. International Human Resource Management. Sage Publications: London.
Häfelfinger, K., 1990. Intrapreneurship: Innovationskraft steigern. io Management Zeit- schrift: Zürich.
Hayek, F.A.v., 1968. Der Wettbewerb als Entdeckungsverfahren, Kieler Vorträge: Kiel.
Hayek, F.A.v., 1986. Recht, Gesetzgebung und Freiheit: Regeln und Ordnung. 2. Auflage. Verlag moderne industrie: Landsberg.
Hebel, M., 2007. Light bulbs and change: systems thinking and organisational learning for new ventures. The Learning Organization: Bingley.
Heifetz, R., Grashow, A. and Linsky, M., 2009. Führen in der Dauerkrise. Harvard Business Manager: Hamburg.
Heinonen, J., 2007. Approaching a deeper understanding of corporate entrepreneurship: Focusing on co-evolutionary processes. Journal of Enterprising Culture: Singapore.
Heisig, P., 2009. Harmonisation of knowledge management – comparing 160 KM frame- works around globe. Journal of Knowledge Management: Bingley.
Heitzer, J. and Render, B., 1999. Operations Management. 5th ed. Prentice Hall: New Jer- sey.
Hentze, J., Graf, A., Kammel, A. and Lindert, K., 2005. Personalführungslehre. 4. Auflage. Haupt Verlag: Bern.
Herrmann-Pillath, C., 2002. Grundriß der Evolutionsökonomik. Wilhelm Fink Verlag: Mün- chen.
Hipel, K.W., Jamshidi, M.M., Tien, J.M. and White C.C., 2007. The Future of Systems, Man, and Cybernetics: Application Domains and Research Methods. IEEE Transactions on systems, man, and cybernetics: New York.
Hitt, M.H. and Ireland, R:D., 1987. Peters and Waterman Revisted: The unended quest for excellence. Academy of Management Executive: Briar Cliff Manor.
Hitt, M.H., Ireland, R.D., Camp, S.M. and Sexton D.L., 2002. Strategic Entrepreneurship: Integrating Entrepreneurial and Strategic Management Perspectives. In: Hitt, M.H., Ire- land, R.D., Camp S.M. and Sexton D.L., 2002. Strategic Entrepreneurship: Creating a New Mindset. Blackwell Publishinhg: Malden.
Hitt, M.H., Ireland, R.D. and Hoskisson, R.E., 2005. Strategic Management: Competitive- ness and Globalisation. Thomson: Mason.
Hofstede, G., 2001. Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organisations Across Nations. 2nd ed. Sage: Thousand Oaks.
Hofstede, G., 2006. Lokales Denken, globales Handeln: Interkulturelle Zusammenarbeit und globales Management. 3. Auflage. C. H. Beck: Nördlingen.
Hohl, E.K. and Knicker, T., 1995. Den Führungsalltag meistern, io Management Zeit- schrift: Zürich.
Hohl, E.K. and Platzek, B.P., 2005. Rollen- und Kompetenzmodell Führungskraft im glo- balen Unternehmen. Hochschule Ravensburg-Weingarten: Weingarten.
Holcombe, R.G., 1998. Entrepreneurship and economic growth. The Quaterly Journal of Austrian Economics: Auburn.
Holtbrügge, D. and Welge, M.K., 2010. Internationales Management: Theorien, Funktio- nen, Fallstudien. 5. Auflage. Schäffer Poeschel: Stuttgart.
Holzhauer, B., 2007. Marktbeobachtung: Trendsignale zeitig erkennen und Marktchancen nutzen. Cornelsen Verlag: Berlin.
Homann, K. and Suchanek, A., 2005. Ökonomik: Eine Einführung. 2. Auflage. Mohr Sieb- eck: Tübingen.
Hough, J. and Neuland, E.W., 2000. Global Business Environments and Strategies: Managing for Global Competitive Advantage. Oxford University Press South Africa: Cape Town.

Hoverstadt, P., 2008. The Fractal Organization: Creating Sustainable Organizations with the Viable System Model. Wiley: Chichester.
Huse, M. and Gabrielsson, J., 2004. The effects of Entrepreneurial Posture on International activities. In: Corbetta, G., Huse, M. and Ravasi, D., 2004. Crossroads of Entrepre- neurship. Springer Science+Business Media: New York.
Ihrig, M. and Knyphausen, D.z., 2009. Discovering international imitative entrepreneur- ship: Towards a new model of international opportunity recognition and realization. Zeit- schrift für Betriebswirtschaft (Special Issue): Wiesbaden.
Ireland, R.D., Covin, J.G. and Kuratko, D.F., 2009. Conceptualizing Corporate Entrepreneurship Strategy. Entrepreneurship Theory and Practice: Waco / Oxford.
Jabbour, C.J.C. and Santos, F.C.A., 2008. The central role of human resource manage- ment in the search for sustainable organizations. The International Journal of Human Re- source Management: London.
Jackson, M.C., 2000. Systems Approaches to Management. Kluwer Academic/ Plenum Publishers: New York.
Jackson, M.C., 2006. Creative Holism: A critical systems approach to complex problem situations. Systems Research and Behavioral Science: Chichester.
Javidan, M., 2007. Welche Kulturen sind zukunftsorientiert. Harvard Business Manager: Hamburg.
Johannessen, J.-A., 2009. A systemic approach to innovation: the interactive innovation model. Kybernetes: Bingley.
Johnson, G. and Scholes, K., 1993. Exploring Corporate Strategy. 3rd ed. Prentice-Hall: Cambridge.
Joyce, S.J., 2008. Das Geheimnis des Ameisenhügels: Kooperative Intelligenz im Unter- nehmen entwickeln. Wiley: Weinheim.
Kaluza, B. and Blecker, T., 2005. Erfolgsfaktor Flexibilität: Strategien und Konzepte für wandlungsfähige Unternehmen. Erich Schmidt Verlag: Berlin.
Kanter, R.M., 1983. The Change Masters: Innovation for productivity in the american corporation. Simon and Schuster: New York.
Kanter, R.M., 1989. When Gíants Learn to dance: Mastering the Challenges of strategy, Management and careers in the 1990s. Simon and Schuster: New York.
Kanter, R.M., 1997. On the Frontiers of Management. Harvard Business Review Book: Boston.
Kanter, R.M., 2011. Zoom In, Zoom Out. Harvard Business Review: Boston.
Kanter, R.M., 2012. Enriching the Ecosystem. Harvard Business Review: Bosten.
Kar, E.v.d. and Duin, P.v.d., 2004. Dealing with uncertainties in building scenarios for the development of mobile services. Proceedings of the 37th Hawaii International Conference on System Sciences: Hawaii.
Karimi, A., Malekmohamadi, I., Daryani, M.A. and Rezvanfar, A., 2011. A conceptual model of intrapreneurship in the Iranian agricultural extension organization: Implications for HRD. Journal of European Industrial Training: Bingley.
Katz, D. and Kahn, R.L., 1966. Common Characteristics of Open Systems. In: Emery, F.E., 1969. Systems Thinking. Penguin Books: Middlesex.
Kellermanns, F.W. and Floyd, S.W., 2005. The Effect of Strategic Consensus on Organizational Flexibility. In: Kaluza, B. and Blecker, T., 2005. Erfolgsfaktor Flexibilität: Strate- gien und Konzepte für wandlungsfähige Unternehmen. Erich Schmidt Verlag: Berlin.
Kerr, J.R. and Littlefield, J.E., 1974. Marketing: an environmental approach. Prentice-Hall: New Jersey.
Khandwalla, P.N., 1977. The Design of Organizations. Harcourt Brace Jovanovich: New York.
Kiechel, R., 1990. Intrapreneurship bringt neuen Elan. io Management Zeitschrift: Zürich. Kieser, A. and Kubicek, H., 1983. Organisation. 2. Auflage. Walter de Gruyter: München.
Kilian, D., Krismer, R., Loreck, S. and Sasmeister, A., 2007. Wissensmanagement: Werk- zeuge für Praktiker. Linde International: Wien.
Kim W.C. and Mauborgne, R., 2005. Der blaue Ozean als Strategie: Wie man neue Märk- te schafft, wo es keine Konkurrenz gibt. Carl Hanser Verlag: München.
Kirchgässner, G., 2000. Homo Oeconomicus: Das ökonomische Modell individuellen Ver- haltens und seine Anwendung in den Wirtschafts- und Sozialwissenschaften. Verlag Mohr Siebeck: Tübingen.
Kirzner, I.M., 1973. Competition & Entrepreneurship. The University of Chicago Press: Chicago.
Knez-Riedl, J., Mulej, M. and Dyck, R.G., 2006. Corporate social responsibility from the viewpoint of systems thinking. Kybernetes: Bingley.
Kobi J.M. and Wüthrich H.A., 1986. Unternehmenskultur verstehen, erfassen und gestal- ten. Moderne Industrie: Landsberg am Lech.
Kohlöffel, K.M. and Rosche J.D., 2009. Spielmacher im Management: Unternehmerisches Gespür entwickeln und strategisch handeln. Wiley-VCH: Weinheim.
Kolde, E.J., 1973. International Business Enterprise. 2nd ed. Prentice-Hall: New Jersey.
Kolde, E.J., 1982. Environment of International Business. Kent Publishing Company: Boston.
Koontz, H., O’Donnell, C., Weihrich, H., 1980. Management. McGraw-Hill: Auckland.

Kornmeier, M., 2007. Wissenschaftstheorie und wissenschaftliches Arbeiten. Physica- Verlag: Heidelberg.
Kotler, P., 2011. Reinventing Marketing to manage the environmental imperative. Journal of Marketing: Chicago.
Kotler, P. and Caslione, J.A., 2009. Chaotics: Management und Marketing für turbulente Zeiten. mi-Wirtschaftsbuch: München.
Kotler, P., Armstrong, G., Saunders, J. and Wong, V., 2003. Grundlagen des Marketing. 3. Auflage. Pearson Studium: München.
Kotter, J.P., 2009. Das Prinzip Dringlichkeit: Schnell und konsequent handeln im Mana- gement. Campus Verlag: Frankfurt/ Main.
Kotter, J.P. and Heskett, J.L., 1993. Die ungeschriebenen Gesetze der Sieger: Erfolgsfak- tor Firmenkultur. ECON Verlag: Düsseldorf.
Kralj, D., 2008. Dialectal system approach supporting environmental innovation for sustainable development. Kybernetes: Bingley.
Krogh, G.v., Ichijo, K. and Nonaka, I., 2000. Enabling Knowledge Creation: How to unlock the mystery of tacit knowledge and release the power of innovation. Oxford University Press: New York.
Krönes, G.V., 2002. Kriterien für Outsourcing-Entscheidungen in der Industrie. Weingar- tener Arbeitspapiere zur Allgemeinen Betriebswirtschaftslehre, zum Personalmanagement und Nonprofit-Management. Fachhochschule Ravensburg-Weingarten: Weingarten.
Kruber, K.P., Mees, A. and Meyer, C., 2008. Auf dem Weg zu einer internationalen Wirtschaftsordnung? Informationen zur politischen Bildung Nr. 299. bpb: Bonn.
Krugman, P., 1996. A country is not a company. Harvard Business Review: Boston. Kuhn, T., 2000. Internes Unternehmertum. Verlag Vahlen: München.
Kuratko, D.F. and Audretsch, D.B., 2009. Strategic Entrepreneurship: Exploring different perspectives of an emerging concept. Entrepreneurship Theory and Practice: Waco / Ox- ford.
Kuratko, D.F., 2010. Corporate Entrepreneurship: An Introduction and research review. In: Acs, Z.J. and Audretsch, D.B., 2010. Handbook of Entrepreneurship Research. Springer Science+Business Media: New York.
Landström, H., 2004. Pioneers in Entrepreneurship Research. In: Corbetta, G., Huse, M. and Ravasi, D., 2004. Crossroads of Entrepreneurship. Springer Science+Business Me- dia: New York.
Lash, J. and Wellington, F., 2007. Competitive Advantage on a Warming Planet. Harvard Business Review: Boston.
Lassen, A.H. and Nielsen, S.L., 2009. Corporate Entrepreneurship: Innovation at the intersection between creative destruction and controlled adaptation. Journal of Enterprising Culture: Singapore.
Lawrence, A.T., Weber, J. and Post, J.E., 2010. Business and Society: Stakeholders, Eth- ics, Public Policy. 13th ed. Mc Graw-Hill: Maidenhead.
Lawrence, P.R. and Lorsch, J.W., 1986. Organization and Environment: Managing Differentiation and Integration. Harvard Business School Press: Bosten.
Lee, S.M. and Peterson, S.I., 2000. Culture, entrepreneurial orientation, and global competitiveness. Journal of World Business: Dallas.
Leitl, M., 2009. Die Stunde der Personalmanager. Harvard Business Manager: Hamburg.
Louw, L. and Venter, P., 2006. Strategic Management: Winning in the Southern African Workplace. Oxford University Press: Cape Town.
Low, K.C.P., 2006. Cultural obstacles in growing entrepreneurship: a study in Singapore. Journal of Management Development: Bingley.
Lubin, D.A. and Esty, D.C., 2010. The sustainability imperative. Harvard Business Review: Bosten.
Luchsinger, V. and Bagby, D.R., 1987. Entrepreneurship and Intrapreneurship: Behaviors, comparisons, and contrasts. SAM Advanced Management Journal: Corpus Christi.
Lumpkin, G.T. and Dess G.G., 1996. Claryfying the entrepreneurial orientation construct and linking it to performance. The Academy of Management Review: New York.
Lundin, S. and Nelson, B., 2010. Ubuntu: So arbeiten Ihre Teams entspannt und effektiv zusammen. Redline Verlag: München.
Lynch, R., 1997. Corporate Strategy. Pitman Publishing: London.
MacDonald, R.W., 2008. Beat the System: Eleven Secrets to Building an Entrepreneurial Culture in a Bureaucratic World. John Wiley & Sons: New Jersey.
Magnusson,M. and Martini, A., 2008. Dual organisational capabilities: from theory to practice - the next challenge for continuous innovation. International Journal of Technology Management: Genf.
Makipere, K. and Yip, G., 2008. Sustainable Leadership. Business Strategy Review: Lon- don.
Makridakis, S., 2004. Foreword: Foresight matters. In: Tsoukas, H. and Shepherd, J., 2004. Managing the future: Foresight in the Knowledge Economy. Blackwell Publishing: Oxford.
Malik, F., 1992. Strategie des Managements komplexer Systeme: Ein Beitrag zur Management-Kybernetik evolutionärer Systeme. 4. Auflage. Haupt: Bern.
Malik, F., 2000. Führen, Leisten, Leben: Wirksames Management für eine neue Zeit. 8. Auflage. DVA: Stuttgart.

Malik, F., 2004. Systemisches Management, Evolution, Selbstorganisation: Grundproble- me, Funktionsmechanismen und Lösungsansätze für komplexe Systeme. 4. Auflage. Haupt: Bern.
Malik, F., 2006. Management: Das A und O des Handwerks. 2. Auflage. Frankfurter All- gemeine Buch: Frankfurt am Main.
Malik, F., 2008. Unternehmenspolitik und Corporate Governance: Wie sich Unternehmen von selbst organisieren. Campus Verlag: Frankfurt am Main.
Manne, H.G., 2011. Entrepreneurship, Compensation, and the Corporation. The Quaterly Journal of Austrian Economics: Auburn.
Markides, C. and Charitou, C.D., 2004. Competing with dual business models: A contingency approach. Academy of Management Executive: Briar Cliff Manor.
Marthinsen, J.E., 2008. Managing in a Global Economy: Demystifying International Macroeconomics. Thomson: Mason.
Martinkenaite, I., 2010. Antecedents and consequences of inter-organisational knowledge transfer: Emerging themes and openings for further research. Baltic Journal of Manage- ment: Bingley.
Mason, R.B., 2006. Coping with complexity and turbulence: An entrepreneurial solution. Journal of Enterprising Culture: Singapore.
Maturana H.R. and Varela F.J., 2009. Der Baum der Erkenntnis: Die biologischen Wur- zeln menschlichen Erkennens. Campus Verlag: Frankfurt am Main.
Maucher, H., 2007. Management Brevier: Ein Leitfaden für unternehmerischen Erfolg. Campus: Frankfurt/ New York.
Maula, M., 2006. Organizations as Learning Systems: Living Composition as an Enabling Infrastructure. Elsevier: Oxford.
Mayer, H.O., 2006. Interview und schriftliche Befragung. R. Oldenbourg Verlag: München. Mbigi, L., 2005. The Spirit of African Leadership. Knowres Publishing: Randburg.
Mc Dermott, R. and Archibald, D., 2010. Die Kraft informeller Netzwerke. Harvard Busi- ness Manager: Hamburg.
McGahan, A.M., 2004. How industries change. Harvard Business Review: Boston.
McGinnis, M.A. and Verney, T.P., 1987. Innovation Management and Intrapreneurship. SAM Advanced Management Journal: Corpus Christi.
McKenzie, B., Ugbah, S.D. and Smothers, N., 2007. “Who is an entrepreneur?” Is still the wrong Question? Academy of Entrepreneurship Journal: Candler / Cullowhee.
McMullen, J.S. and Shepherd D.A., 2006. Entrepreneurial Action and the Role of Uncertainty in the Theory of the Entrepreneur. The Academy of Management Review: Briarcliff Manor.
Meadows, D.L., Meadows, D.H. and Zahn, E., 1972. Die Grenzen des Wachstums. DVA: Stuttgart.
Meadows, D.L., Meadows, D.H. and Randers, J., 1994. Die neuen Grenzen des Wachs- tums. 7. Auflage. DVA: Stuttgart.
Meadows, D.L., Meadows, D.H. and Randers, J., 2004. The Limits to Growth: The 30- Year Update. Chelsea Green Publishing: White River Junction.
Melnikas, B., 2008. Integral spaces in the European union: Possible trends of the social, economic and technological integration in the Baltic region. Journal of Business Econom- ics and Management: London.
Mets, T., 2006. Global Entrepreneurial Management: Leverage of Innovation, Knowledge and Competence. In: Mets, T., Andrijevskaya, J., Venesaar, U. and Kolbre, E., 2006. En- trepreneurship in Estonia: Policies, Practices, Education and Research. Tartu University Press: Tartu.
Mewes, W., 2007a. Die geheimnisvollen Wirkungen der Kettenreaktionen. Strategie Jour- nal: Ilvesheim.
Mewes, W., 2007b. Structure follows Strategy. Strategie Journal: Ilvesheim.
Mewes, W., 2007c. Nutze Deiner Umwelt, Strategie Journal: Ilvesheim.
Mewes, W., 2008. Das kybernetische System, Strategie Journal: Ilvesheim.
Meyer, B., 2008. Wie muss die Wirtschaft umgebaut werden? Perspektiven einer nachhal- tigen Entwicklung. Fischer Taschenbuchverlag: Frankfurt am Main.
Micic, P., 2007. Die fünf Zukunftsbrillen. Gabal Verlag: Offenbach.
Miller, J.G., 1995. Living Systems. University Press of Colorado: Niwot.
Mintzberg, H., 1979. The Structuring of Organizations. Prentice-Hall: Englewood Cliffs.
Mintzberg, H., 1991a. Five Ps for Strategy. In: Mintzberg, H. and Quinn, J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Prentice-Hall International: London.
Mintzberg, H., 1991b. Ideology and the Missionary Organization. In: Mintzberg, H. and Quinn. J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Prentice-Hall Inter- national: London.
Mintzberg, H., 1991c. The Innovative Organization. In: Mintzberg, H. and Quinn. J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Prentice-Hall International: Lon- don.
Mintzberg, H., 1993. Structure in Fives: Designing effective Organizations. Prentice-Hall: New Jersey.
Mintzberg, H., 2009. Führung neu definieren. Harvard Business Manager: Hamburg.

Mitchell, J.R., Shepherd, D.A. and Sharfman, M.P., 2011. Erratic strategic decisions: When and why managers are inconsistent in strategic decision making. Strategic Management Journal: Chicago / Chichester.
Mohamad, O., Rayamayah, T., Puspowarsito, H., Natalisa, D. and Saerang, D.P.E., 2011. Corporate Entrepreneurship and Firm Performance: The Role of Business Environment as a Moderator. IUP Journal of Management Research: Hyderabad.
Morgan, G.,1992. Proactive Management. In: Mercer, D., 1992. Managing the external environment: a strategic perspective. Sage Publications: London.
Morgan, G., 1998. Images of Organization. Berrett-Koehler: San Francisco. Morgan, W., Katz, M. and Rosen, H., 2006. Microeconomics. Mc Graw-Hill: London.
Morris, M.H., Avila, R.A. and Allen, J., 1993. Individualism and the modern corporation: implications for innovation and entrepreneurship. Journal of Management: Portland.
Morris, M.H. and Kuratko, D.F., 2002. Corporate Entrepreneurship: Entrepreneurial Development within Organizations. Thomson South-Western: Mason.
Morris, M.H., Kuratko, D.F. and Covin, J.G., 2008. Corporate Entrepreneurship and Innovation: Entrepreneurial Development within Organizations. 2nd ed. Thomson South- Western: Mason.
Morris, M.H., Kuratko, D.F., Schindehutte, M. and Spivack, A.J., 2012. Framing the entrepreneurial experience. Entrepreneurship Theory and Practice: Waco / Oxford.
Morrison, J., 2006. The International Business Environment: Global and Lokal Market- places in a Changing World. 2nd ed. Palgrave MacMillan: New York.
Mouton, J., 1996. Understanding social research. J.L. van Schaik: Pretoria.
Mouton, J., 2001. How to succeed in your Master's & Doctoral Studies: A South African Guide and Resource Book. Van Schaik Publishers: Pretoria.
Mulej, M. and Potocan, V., 2007. Requisite holism – precondition of reliable business in- formation. Kybernetes: Bingley.
Müller, H., 2008. Wie kann eine neue Weltordnung aussehen? Wege in eine nachhaltige Politik. Fischer Taschenbuchverlag: Frankfurt am Main.
Nagel, R., 2007. Lust auf Strategie: Workbook zur systemischen Strategieentwicklung. Klett-Cotta: Stuttgart.
Naisbitt, J., 2007. Mind Set: Wie wir die Zukunft entschlüsseln. Carl Hanser Verlag: München.
Narayanan, V.K., 2001. Managing Technology and Innovation for Competitive Advantage. Prentice Hall: New Jersey.
Narayanan, V.K. and Fahey, L., 2004. Invention and Navigation as contrasting metaphors of the pathways to the future. In: Tsoukas, H. and Shepherd, J., 2004. Managing the fu- ture: Foresight in the Knowledge Economy. Blackwell Publishing: Oxford.
Naveh, E., 2005. The effect on integrated product development on efficiency and innovation. International Journal of Production Research: London.
Nayager, T. and Vuuren, v.J.J., 2005. An Analysis of an Organisational Strategy, Struc- ture and Culture that Supports Corporate Entrepreneurship in Established Organisations. South African Journal of Economic and Management Sciences: Pretoria.
Naylor, J., 1996. Operations Management. Pitman Publishing: London.
Nellis, J. and Parker, D., 2002. Principles of Business Economics. Pearson Education: Harlow.
Nelson, R.R. and Winter, S.G., 1982. An Evolutionary Theory of Economic Change. The Belknap Press of Harvard University Press: Cambridge.
Neugebauer, L., 1997. Unternehmertum im Unternehmen. Vandenhoeck & Ruprecht: Göt- tingen.
Nidumolu, R. Prahaland, C.K. and Rangaswami, M. R., 2009. Why sustainability is now the key driver of innovation. Harvard Business Review: Bosten.
Niess, P.S. and Spandau, A., 2005. Industrielle Organisation: Vom tayloristischen zum virtuellen Unternehmen. Verlag Franz Vahlen: München.
Nohria, N., Fernandez-Aráoz, C. and Groysberg, B., 2009. So holen Sie sich die besten Leute. Harvard Business Manager: Hamburg.
Nonaka, I., 1988. Creating Organizational Order Out of Chaos: Self-Renewal in Japanese Firms. California Management Review: Berkeley.
Nonaka, I., Takeuchi, H., 1997. Die Organisation des Wissens: Wie japanische Unter- nehmen eine brachliegende Ressource nutzbar machen. Campus: Frankfurt/ Main.
Notger, C. and Kiesel, M., 2000. Unternehmensführung: Methoden, Instrumente, Managementkonzepte. mi Verlag Moderne Industrie: Landsberg.
O'Connor, J. and McDermott, I., 2006. Systemisches denken verstehen und nutzen: Die Lösung lauert überall. 4. Auflage. VAK Verlags GmbH: Freiburg.
Oden, H.W., 1997. Managing Corporate Culture, Innovation, and Intrapreneurship. Quo- rum Books: Westport.
Ohmae, K., 2006. Was kommt nach der Globalisierung? Econ: Berlin.

O'Neill, G.D., Hershauer, J.C. and Golden, J.S., 2009. The cultural context of sustainability entrepreneurship. Greener Management International: Sheffield.
Ortiz, M.A.A., 2009. Analysis and valuation of intellectual capital according to its context. Journal of Intellectual Capital: Bingley.
Ortt, J.R. and Duin, P.A.v.d., 2008. The evolution of innovation management towards con- textual innovation. European Journal of Innovation Management: Bingley.
Osborn, R.N., Hunt, J.G. and Jauch, L.R., 1980. Organization Theory: An integrated ap- proach. John Wiley and Sons: New York.
Osterloh, M. and Frost, J., 2000a. Der schwere Weg von der Organisations theories zum Organisations design. DBW: Stuttgart.
Osterloh, M. and Frost, J., 2000b. Koordination, Motivation und Wissensmanagement. In: Beschorner, T. and Pfriem, R., 2000. Evolutorische Ökonomik und Theorie der Unterneh- mung. Metropolis Verlag: Marburg.
Palmer, A. and Hartley, B., 2002. The Business Environment. 4th ed. Mc Graw-Hill: Maid- enhead.
Paramanathan, S., Farrukh, C., Phaal, R. and Probert, D., 2004. Implementing industrial sustainability: the research issues in technology management. R&D Management: Oxford.
Parr Rud, O., 2009. Business Intelligence Success Factors: Tools for aligning your Busi- ness in the global economy. John Wiley & Sons: New Jersey.
Paxmann, S. and Fuchs, G., 2010. Der unternehmensintere Businessplan: Neue Geschäftsmöglichkeiten entdecken, präsentieren, durchsetzen. Campus Verlag: Frankfurt.
Pearce, J.A., Kramer, T.R. and Robbins, D.K., 1997. Effects of managers' entrepreneurial behaviour on subordinates. Journal of Business Venturing: New York.
Pedler, M., Burgoyne, J. and Boydell, T., 1997. The Learning Company: A strategy for sustainable development. 2nd ed. Mc Graw-Hill: Maidenhead.
Penrose, E., 1995. The Theory of the Growth of the firm. 3rd ed. Oxford University Press: Oxford.
Peters, T.J. and Waterman R.H., 1982. In Search of Excellence: lessons from America's Best-Run Companies. Warner Books: New York.
Petersen, C.H. and Lewis, C.W., 1999. Managerial Economics. 4th ed. Prentice-Hall: New Jersey.
Phatak, A.V., Bhagat, R.S. and Kashlak, R., 2009. International Management: Managing in a diverse and dynamic global environment. 2nd ed. Mc Graw-Hill: Maidenhead.
Picot, A., Dietl, H. and Franck, E., 1997. Organisation: Eine ökonomische Perspektive. Schäffer-Poeschel Verlag: Stuttgart.
Pidd, M., 1996. Tools for Thinking: Modelling in Management Science. Wiley: Chichester.
Pinchot, G., 1988. Intrapreneuring: Mitarbeiter als Unternehmer. Gabler Verlag: Wiesba- den.
Platzek, B.P., Pretorius, L. and Winzker, D.H., 2010. A role model for entrepreneurial firms in a global business environment. In: Ginevičius, R., Rutkauskas, A.V. and Počs, R., 2010. Business and Management – Selected Papers, Volume II, VGTU Publishing House Technika: Vilnius.
Platzek, B.P., Pretorius, L. and Winzker, D.H., 2011a. Global business environment: Holistic Intrapreneurship. SCMS Journal of Indian Management: Cochin.
Platzek, B.P., Pretorius, L. and Winzker, D.H., 2011b. Identifying and pursuing business opportunities in a vital entrepreneurial learning organisation. In: Schutte,C.S.L. and Pretorius, L., 2011. Innovative Systems Thinking: Unravelling Complexity for Successful Solu- tions. ISEM 2011 Proceedings: Stellenbosch.
Platzek, B.P., Pretorius, L. and Winzker, D.H., 2012. Sustainability in technology driven business environments: a company-level approach. In: Proceedings of PICMET '12. IEEE and Omnipress: Portland (in press).
Porter, M.E., 1991. Nationale Wettbewerbsvorteile: Erfolgreich konkurrieren auf dem Weltmarkt. Droemersche Verlagsanstalt: München.
Porter, M.E., 2004a. Competitive Strategy: Techniques for Analyzing Industries and Competitors. Free Press: New York.
Porter, M.E., 2004b. Competitive Advantage: Creating and Sustaining Superior Performance. Free Press: New York.
Porter, M.E., 2008. The five Competitive Forces that Shape Strategy. Harvard Business Review: Boston.
Porter, M.E. and Reinhardt, F.L., 2007. A Strategic Approach to Climate. Harvard Busi- ness Review: Boston.
Porter, M.E. and Sölvell, Ö., 1998. The Role of Geography in the Process of Innovation and the Sustainable Competitive Advantage of Firms. In: Chandler, A.D., Hagström, P. and Sölvell, Ö. (Ed). The Dynamic Firm: The Role of Technology, Strategy, Organization, and Regions. Oxford University Press: New York.
Poulter, M., 2006. Operations and Supply Chain Management. In: Niemann, G.,
Small Business Management: A South African approach. Van Schaik Publishers: Pretoria.
Prashantham, S. and Birkinshaw, J., 2008. Dancing with gorillas: How small companies can partner effectively with MNCs. California Management Review: Berkeley.

Pretorius, M., Millard, S.M. and Kruger, M.E., 2005. Creativity, innovation and implementation: Management experience, venture size, life cycle stage, race and gender as mod- erators. South African Journal of Business Management: Hatfield.
Priddat, B.P., 2000. Dissipationsökonomie "in between virtual and learning organizations". In: Beschorner, T. and Pfriem, R., 2000. Evolutorische Ökonomik und Theorie der Unter- nehmung. Metropolis Verlag: Marburg.
Probst, G.J.B., 1987. Selbst-Organisation: Ordnungsprozesse in sozialen Systemen aus ganzheitlicher Sicht. Verlag Paul Parey: Berlin.
Prosek, J., 2011. Army of Entrepreneurs: Create an Engaged and Empowered Workforce for Exceptional Business Growth. Amacom: New York.
Quinn, J.B., 1991. Strategies for Change. In: Mintzberg, H. and Quinn J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Prentice-Hall International: London.
Raelin, J.A., 2008. Work-Based Learning: Bridging Knowledge and Action in the work- place. John Wiley & Sons: San Francisco.
Ramage, M. and Shipp, K., 2009. Systems Thinkers. Springer: London.
Rampe, M., 2005. Der R-Faktor: Das Geheimnis unserer inneren Stärke. Knauer: Mün- chen.
Ramann, A.P., 2009. Die neuen Spieler im globalen Wettbewerb. Harvard Business Man- ager: Hamburg.
Rathe, K. and Witt, U., 2000. Evolutionäre Ansätze in der Theorie der Unternehmung. In: Beschorner, T. and Pfriem, R., 2000. Evolutorische Ökonomik und Theorie der Unterneh- mung. Metropolis Verlag: Marburg.
Rauch, A., Wiklund, J., Lumpkin, G.T. and Frese, M., 2009. Entrepreneurial Orientation and Business Performance: An Assessment of Past Research and Suggestions for the Future. Entrepreneurship Theory and Practice: Waco / Oxford.
Rensburg, G.v., 2007. The Leadership Challenge in Africa: A framework for African Renaissance leaders. Van Schaik Publishers: Pretoria.
Roberts, J., 2004. The Modern Firm: Organizational Design for performance and growth. Oxford University Press: Oxford.
Roffe, I., 1999. Innovation and creativity in organisations: a review of the implications for training and development. Journal of European Industrial Training: Bingley.
Rogers, E.M., 2003. Diffusion of Innovations. 5th ed. Free Press: New York.
Rogers, P.P., Jalal, K.F. and Boyd, J., 2008. An Introduction to Sustainable Development. Earthscan: London.
Roininen, S. and Ylinenpää, H., 2009. Schumpetrian versus Kirznerian entrepreneurship: A comparison of academic and non-academic new venturing. Journal of Small Business and Enterprise Development: Bingley.
Roolath, T., 2006. Entrepreneurial Approach to Explaining the Internationalization of Esto- nian Small and Medium Enterprises. In: Mets, T., Andrijevskaya, J., Venesaar, U. and Kolbre, E., 2006. Entrepreneurship in Estonia: Policies, Practices, Education and Re- search. Tartu University Press: Tartu.
Rothwell, W.J. and Sullivan, R., 2005. Practicing Organization Development: A Guide for Consultants. 2nd ed. Pfeiffer: San Francisco.
Roux, A., 2008. Everyone's Guide to the South African Economy. 9th ed. Zebra Press: Cape Town.
Rüegg-Stürm, J., 2004. Das neue St. Gallener Management Modell. In: Dubs, R., Euler, D., Rüegg-Stürm, J. and Wyss, C.E., 2004. Einführung in die Managementlehre. Haupt Verlag: Bern.
Rugman, A.M. and Collinson, S., 2006. International Business. 4th ed. Pearson Education: Harlow.
Russell, R.D., 2004. Cultural Influences on Entrepreneurship: Implications for the Emer- gence of New Ventures in Latin America. Journal of Transnational Management: London.
Sachs, S., 2000. Anforderungen der Populationsökologie an die „Theorie of the Firm". In: Beschorner, T. and Pfriem, R., 2000. Evolutorische Ökonomik und Theorie der Unterneh- mung. Metropolis Verlag: Marburg.
Sackmann, S.A., 1991. Cultural Knowledge in Organizations: Exploring the Collective Mind. Sage Publications: Newbury Park.
Sackmann, S.A., 2002. Unternehmenskultur: Erkennen, Entwickeln, Verändern. Luchter- hand: Köln.
Sackmann, S. A., 2007. Methoden zur Erfassung von Unternehmenskultur. In: Nerdinger, F. W., 2007. Ansätze zur Messung von Unternehmenskultur: Möglichkeiten, Einordnung und Konsequenzen für ein neues Instrument. Universität Rostock: Rostock.
Saffo, P., 2007. Sechs Regeln für effektive Prognosen. Harvard Business Manager: Ham- burg.
Salvatore, D., 2004. Managerial Economics in a Global Economy. 5th ed. South Western: Mason.
Sanchez, R. and Heene, A., 2004. The New Strategic Management: Organisation, Competition, and Competence. John Wiley & Sons: New York.
Sarkess, M. and Hulland, J., 2009. Innovation and efficiency: It is possible to have it all. Business Horizons: Stanfort.
Sathe, V., 2003. Corporate Entrepreneurship: Top Managers and New Business Creation. Cambridge University Press: Cambridge.
Schanz, G., 1994. Organisations gestating: Management von Arbeitsteilung und Koordi- nation. Verlag Franz Vahlen: München.

Scharmer, C.O., 2009. Theory U: Leading from the Future as It Emerges. Berrett-Koehler Publishers: San Francisco.
Scheepers, M.J., Hough, J. and Bloom, J.Z., 2007. Entrepreneurial intensity: A Comparative Analysis of Established Companies in South Africa. South African Journal of Economic and Management Sciences: Pretoria.
Schein, E.H., 1980. Organisationspsychologie. Gabler: Wiesbaden.
Schein, E.H., 1992. Organisational Culture and Leadership. Jossey-Bass Publishers: San Francisco.
Schein, E.H., 2003. Organisationskultur: The Ed Schein Corporate Culture Survival Guide. EHP: Bergisch Gladbach.
Schmelter, R., 2009. Der Einfluss von Management auf Corporate Entrepreneurship. Gabler: Wiesbaden.
Schnell, R., Hill, P.B. and Esser, E., 2005. Methoden der empirischen Sozialforschung. Oldenbourg Wissenschaftsverlag: München.
Schreyögg, G., 1995. Umwelt,Technologie und Organisationsstruktur: Eine Analyse des kontingenztheoretischen Ansatzes. 3. Auflage. Haupt: Bern.
Schumpeter, J.A., 2006. Theorie der wirtschaftlichen Entwicklung. Duncker und Humblot: Berlin.
Schumpeter, J.A., 1950. Kapitalismus, Sozialismus und Demokratie. 2. Auflage. Leo Leh- nen Verlag: München.
Schuster, C.P. and Copeland, M.J., 2006. Global Business Practices: Adapting for Suc- cess. Thomson: Ohio.
Schwab, K., 1976. Chancenmanagement. VDI Verlag: Düsseldorf.
Schwenker, B. and Spremann, K., 2008. Unternehmerisches Denken zwischen Strategie und Finanzen. Springer: Berlin.
Senge, P.M., 2003. Die Fünfte Disziplin, Kunst und Praxis der lernenden Organisation. 9. Auflage. Klett-Cotta: Stuttgart.
Senge, P.M., Scharmer C.O., Jaworski, J. and Flowers, B.S., 2004. Presence: Exploring Profound Change in people, organizations and society. Nicholas Brealey Publishing: Lon- don.
Senge, P.M., 2006. The Fifth Discipline, The Art & Practice of the Learning Organisation. 2nd ed. Random House: London.
Seufert, S. and Diesner, I., 2010. Wie lernen im Unternehmen funktioniert. Harvard Busi- ness Manager: Hamburg.
Shane, S., 2003. A General Theory of Entrepreneurship: The Individual-Opportunity Nexus. Edward Elgar: Cheltenham.
Sheffi, Y., 2007. The Resilient Enterprise: Overcoming vulnerability for competitive advantage. The MIT Press: Cambridge.
Sheth, J.N. and Sisodia R.S., 2006. Tectonic Shift: The Geoeconomics Realignment of Globalising Markets. Response Books: New Dehli.
Shrestha, N.R., Smith, W.I., McKinley-Floyd, L. and Gray, K.R., 2008. Management and national development in Kenya: toward a normative framework. International Journal of Emerging Markets: Bingley.
Simon, H., 1996. Die heimlichen Gewinner: Die Erfolgsstrategien unbekannter Weltmarkt- führer. 2. Auflage. Campus Verlag: Frankfurt/ Main.
Simon, H., 2007. Hidden Champions des 21. Jahrhunderts: Die Erfolgsstrategien unbe- kannter Weltmarktführer. Campus Verlag: Frankfurt/ Main.
Slack, N., Chambers, S., Harland, C., Harrison, A. and Johnston, R., 1995. Operations Management. Pitman Publishing: London.
Smith, A., 1982. Der Wohlstand der Nationen. 2. Auflage. Deutscher Taschenbuch Verlag: München.
Smith, K.G. and Di Gregorio, D., 2002. Bisociation, Discovery, and the role of Entrepre- neurial Action. In: Hitt, M.H., Ireland, R.D., Camp, S.M. and Sexton, D.L., 2002. Strategic Entrepreneurship: Creating a New Mindset. Blackwell Publishing: Malden.
Srinivas, K.M., 1995. Globalization of business and the third world: Challenge of expand- ing the mindsets. Journal of Management Development: Bingley.
Stacey, R. D., 1991. The Chaos Frontier: Creative Strategic Control for business. Butter- worth Heinemann: Oxford.
Stacey, R.D., 1996 (2011). Strategic Management and Organisational Dynamics. 2nd ed. (6th ed.) Pitman Publishing (Pearson Education): London (Harlow).
Stacey, R.D., 2001. Complex Responsive Processes in Organisations: Learning and Knowledge Creation. Routledge: New York.
Stadler, C., 2007. Die vier Prinzipien für dauerhaften Erfolg. Harvard Business Manager: Hamburg.
Stadler, K., 2009. Die Kultur des veränderns: Führen in Zeiten des Umbruchs. DTV: München.
Stam, E., 2007. Why Butterflies Don’t Leave: Locational Behavior of Entrepreneurial Firms. Economic Geography: Worcester.
Starbuck, W.H., Greve, A. and Hedberg, B.L.T., 1991. Responding to Crisis. In: Mintz- berg, H. and Quinn J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Pren- tice-Hall International: London.

Steinmann, H. and Schreyögg, G., 2005. Management: Grundlagen der Unternehmens- führung. 6. Auflage. Gabler Verlag: Wiesbaden.
Stevenson, H.H. and Gumpert, D.E., 1998. Der Kern unternehmerischen Handelns. In: Faltin, G., Ripsas, S. and Zimmer, J., Entrepreneurship: Wie aus Ideen Unternehmen werden. Verlag C.H.Beck: München.
Stewart, W.H., May, R.C. and Kalia, A., 2008. Environmental Perceptions and Scanning in the United States and India: Convergence in Entrepreneurial Information Seeking? Entrepreneurship Theory and Practice: Waco / Oxford.
Stiglitz, J.E., 2002. Die Schatten der Globalisierung. Siedler Verlag: Berlin.
Stiglitz, J.E., 2010. Im freien Fall: Vom Versagen der Märkte zur Neuordnung der Wirt- schaft. Siedler Verlag: München.
Stöger, R., 2009. Krisen zur Neuorientierung nutzen. Harvard Business Manager: Ham- burg.
Struwig, M., 2003. Intrapreneurship. In: Niemann, G., Hough, J. and Nieuwenhuizen, C., 2003. Entrepreneurship: A South African Perspective. Van Schaik Publishers: Pretoria.
Stutely, R., 2006. Guide to Economic Indicators: Making Sense of Economic. 6th ed. Pro- file Books / The Economist: London.
Šumanski, M.M., Kolenc, I. and Markič, M., 2007. Teamwork and defining group struc- tures. Team Performance Management: Bingley.
Suntum, U.v., 2001. Die unsichtbare Hand. Springer Verlag: Heidelberg.
Süssmuth Dyckerhoff, C., 1995. Intrapreneuring: Ein Ansatz zur Vitalisierung reifer Gross Unternehmen. Verlag Paul Haupt: Bern.
Tajeddini, K., 2009. Perceptions of learning among Swiss watch managers. Journal of Workplace Learning: Bingley.
Tapscott, D., Williams, A.D., 2009. Wikinomics: Die Revolution im Netz. DTV: München.
Tepstra, V. and David, K.,1991. The Cultural Environment of International Business. 3rd ed. South Western Publishing: Cincinnati.
Teusch, U., 2004. Was ist Globalisierung? Primus Verlag: Darmstadt.
Thompson, J.D. and McEwan, W.J., 1958. Organisational goals and environment: goal setting as an interaction process. In: Salaman, G. and Thompson, K., 1973. People and organizations. Longman Group: London.
Thompson, J.D., 2003. Organizations in Action: Social Science Bases of Administrative Theory: Transaction Publishers: New Brunswick.
Thornberry, N., 2006. Lead like an Entrepreneur: Keeping the entrepreneurial spirit alive within the corporation. McGraw-Hill: New York.
Thurnes, C.M., 2003. Konzept zur modellbasierten Ermittlung von Kompetenzbedarfen. Universität Kaiserslautern: Kaiserslautern.
Thurow, L., 2004. Die Zukunft der Weltwirtschaft. Campus Verlag: Frankfurt.
Tichy, N. M., 1983. Managing Strategic Change, Technical, Political, and Cultural Dynam- ics. John Wiley & Sons: New York.
Tracey, P. and Phillips, N., 2011. Entrepreneurship in Emerging Markets: Strategies for New Venture Creation in Uncertain Institutional Contexts. Management International Re- view: Wiesbaden.
Tracy, L., 1993. Application of living systems theory to the study of management and organisational behaviour. Systems Research and Behavioral Science: Chichester.
Treven, S. and Mulej, M., 2007. The systemic approach to the encouragement of innova- tiveness through employee diversity management. Kybernetes: Bingley.
Trompenaars, F. and Hampden-Turner, C., 1998. Riding the waves of culture: Under- standing Cultural Diversity in global business. 2nd ed. McGraw-Hill: New York.
Trompenaars, F. and Wooliams, P., 2003. Business Across Cultures. Capstone: Chichester.
Trompenaars, F., 2007. Riding the Whirlwind: Connecting People and Organisations in a culture of Innovation. Invinite Ideas: Oxford.
Tsoukas, H. and Shepherd, J., 2004. Organizations and the future: From Forecasting to Foresight. In: Tsoukas, H. and Shepherd, J., 2004. Managing the future: Foresight in the Knowledge Economy. Blackwell Publishing: Oxford.
Tushman, M.L., Newman W.H. and Romanelli, E., 1991. Convergence and Upheaval: Managing the Unsteady Pace of Organizational Evolution. In: Mintzberg, H. and Quinn, J.B., 1991. The Strategy Process: Concepts, Contexts, Cases. Prentice-Hall International: London.
Tushman, M.L., Smith, W.K. and Binns, A., 2011. The Ambidextrous CEO. Harvard Busi- ness Review: Boston.
Tyson, S., 1995. Human Resource Strategy: Towards a general theory of Human Re- source Management. Pitman Publishing: London.
Ulrich, H. and Probst, G.J.B., 1991. Anleitung zum ganzheitlichen Denken und Handeln: Ein Brevier für Führungskräfte. 3. Auflage. Verlag Paul Haupt: Bern.
Ulrich, P. and Fluri, E., 1995. Management. 7. Auflage. Verlag Paul Haupt: Bern.

Vance, C., Zell, D. and Groves, K., 2008. Considering individual linear/nonlinear thinking style and innovative corporate culture. International Journal of Organizational Analysis: Bingley.
Vanotti, L.E., 1992. Konzerninternes Unternehmertum ein Widerspruch? io Management Zeitschrift: Zürich.
Vasilchenko, E. and Morrish, S., 2011. The Role of Entrepreneurial Networks in the Exploration and Exploitation of Internationalization Opportunities by Information and Communi- cation Technology Firms. Journal of International Marketing: Chicago.
Venter, P., 2006. Analyzing the internal environment. In: Louw, L. and Venter, P., 2006. Strategic Management: Winning in the Southern African Workplace. Oxford University Press: Cape Town.
Verbeke, A. and Yuan, W., 2007. Entrepreneurship in Multinational Enterprises: A Penrosean Perspective. Management International Review: Wiesbaden.
Vermeulen, F., Puranam, P. and Gulati, R., 2010. Fitnessprogramm für Unternehmen. Harvard Business Manager: Hamburg.
Vernon, R., 1966. International Investment and International Trade in the Product Cycle. Quaterly Journal of Economics: Oxford.
Vernon, R. and Wells, L.T., 1991. The Economic Environment of International Business. 5th ed. Prentice Hall: New Jersey.
Vester, F., 1983. Neuland des Denkens: Vom technokratischen zum kybernetischen Zeit- alter. Deutsche Verlags-Anstalt: Stuttgart.
Vester, F., 1990. Ausfahrt Zukunft. Wilhelm Heyne Verlag: München.
Vester, F., 2005. Die Kunst vernetzt zu denken: Ideen und Werkzeuge für einen neuen Umgang mit Komplexität. 5. Auflage. Deutscher Taschenbuch Verlag: München.
Vester, F., 2005. Denken, Lernen, Vergessen: Was geht in unserem Kopf vor, wie lernt das Gehirn, und wann lässt es uns im Stich? 31. Auflage. Deutscher Taschenbuch Verlag: München.
Vora, D., Kostova, T. and Roth, K., 2007. Roles of Subsidiary Managers in Multinational Corporations: The Effect of Dual Organizational Identification. Management International Review: Wiesbaden.
Voros, J., 2006. Introducing a classification framework for prospective methods. Foresight: Bingley.
Voss, R., 2010. Wissenschaftliches Arbeiten. Lucius & Lucius: Stuttgart.
Walter, R., 2006. Geschichte der Weltwirtschaft: Eine Einführung. Böhlau Verlag: Köln.
Weick, K.E. and Sutcliffe, K.M., 2007. Managing the unexpected: Resilient Performance in an Age of Uncertainty. John Wiley and Sons: San Francisco.
Weinshall, T.D., 1977. Multinational Corporations: A Total System Approach to their Role and Measurement: Some Reflections on their Supranational, Intercultural and Multistruc- tural Aspects. In: Weinshall, T.D., 1977. Culture and Management. Penguin Books: New York.
Weizsäcker, E.U.v., Hargroves, K. and Smith, M., 2010. Faktor Fünf: Die Formel für nachhaltiges Wachstum. Droemer: München.
Wennekers, S. and Thurik, R., 1999. Linking Entrepreneurship and Economic Growth. Small Business Economics: New York.
Werner, A., 2007a. Organisational culture, ethics and diversity in a global environment. In: Werner, A., 2007. Organisational Behavior: A contemporary South African perspective. 2nd ed. Van Schaik Publishers: Pretoria.
Werner, A., 2007b. Contemporary developments in leadership and follower-ship. In: Werner, A., 2007. Organisational Behavior: A contemporary South African perspective. 2nd ed. Van Schaik Publishers: Pretoria.
Wheatley, M.J., 1999. Leadership and the New Science: Discovering Order in a Chaotic World. 2nd ed. Berrett-Koehler Publishers: San Francisco.
Wheelen, T.L. and Hunger, J.D., 1999. Strategic Management and Business Policy: Entering 21st Century Global Society. 7th ed. Addison Wesley Longman: New Jersey.
Wiener, N.L., 1992. Kybernetik. ECON Verlag: Düsseldorf.
Wijen, F. and Tulder R.v., 2011. Integrating Environmental and International Strategies in a World of Regulatory Turbulence. California Management Review: Berkeley.
Williamson, O.E., 1992. The modern corporation: origins, evolution, attributes. In: Mercer, D., 1992. Managing the External Environment: A Strategic Perspective. SAGE Publicati- ons: London.
Witt, U., 1987. Individualistische Grundlagen der Evolutorischen Ökonomik. J. C. B. Mohr: Tübingen.
Wittmann, R.G., Reuter, M.P. and Magerl, R., 2007. Unternehmensstrategie und Busi- nessplan. 2. Auflage. Redline Wirtschaft: Heidelberg.
Winter, W., 2005. Wissenschaftliche Arbeiten schreiben, Redline Wirtschaft: Frankfurt / Main.
Winzker, D.H., 2006. A holistic management model for the transformation of high tech engineering companies for sustained value creation and global competitiveness. University of Johannesburg: Johannesburg.
Winzker, D.H. and Pretorius, L., 2009. Technology and engineering management in a fast changing world – or 'Creating substance out of chaos'. In: Proceedings of PICMET '09. IEEE and Omnipress: Portland.
Womack, J.P. and Jones, D.T., 1997. Auf dem Weg zum perfekten Unternehmen: Lean Thinking. Campus Verlag: Frankfurt / Main.

Wong, C.Y.L., Millar, C.C.J.M. and Choi, C.J., 2006. Singapore in transition: from technology to culture hub. Journal of Knowledge Management: Bingley.
Wood, R., 2000. Managing Complexity. The Economist Books: London.
Worthington, I. and Britton, C., 2000. The Business Environment. 3rd ed. Pearson Education: Harlow.
Wright, R., 1989. Systems Thinking: A guide to managing in a changing environment. SME: Michigan.
Wulfen, G.v., 2011. Creating innovative products and services: The fourth innovation method. Gower Publishing Limited: Farnham.
Wunderer, R. and Bruch, H., 2000. Umsetzungskompetenz: Diagnose und Förderung in Theorie und Unternehmenspraxis. Verlag Franz Vahlen: München.
Wunderer, R., 2006. Führung und Zusammenarbeit: Eine unternehmerische Führungsleh- re. 6. Auflage. Luchterhand: München.
Wyk, v.R. and Adonisi, M., 2008. The Role of Entrepreneurial Characteristics in Predicting Job Satisfaction. South African Journal of Economic and Management Sciences: Pretoria.
Yaniv, E., Lavi, O.S. and Siti, G., 2010. Person-Organisation Fit and its impact on organ- isational citizenship behaviour as related to social performance. Journal of General Man- agement: London.
Zahn, E., Nowak, M. and Schön, M., 2005. Flexible Strategien für wandlungsfähige Unter- nehmen. In: Kaluza, B. and Blecker, T., 2005. Erfolgsfaktor Flexibilität: Strategien und Konzepte für wandlungsfähige Unternehmen. Erich Schmidt Verlag: Berlin.
Zahra, S.A., 1993. A conceptual model of entrepreneurship as firm behaviour: a critique and extension. Entrepreneurship Theory and Practice: Waco / Oxford.
Zahra, S.A. and Garvis, D.M., 2000. International Corporate Entrepreneurship: The Moderating Effect of international environmental hostility. Journal of Business Venturing: New York.
Zahra, S.A. and George, G., 2002. International entrepreneurship: The Current Status of the Field and Future Research Agenda. In: Hitt, M., Ireland, R. D., Camp, S. M. and Sex- ton, D.L., 2002. Strategic Entrepreneurship: Creating a New Mindset. Blackwell Publish- ing: Malden.
Zentes, J. and Swoboda, B., 1999. Motive und Erfolgsgrößen internationaler Kooperation mittelständischer Unternehmen: Überprüfung kontingenztheoretischer Hypothesen. DBW: Stuttgart.
Zhang, H., Shu, C., Jiang, X. and Malter, A.J. Managing Knowledge for Innovation: The Role of Cooperation, Competition, and alliance Nationality. Journal of International Marketing: Chicago.

A Note on the Author

Ahmed H. H. Mansoor, is an engineer by training, a social entrepreneur and strategy consultant based in Tanzania. He's an activist and founder of **DEMHA GROUP OF COMPANIES**, which serves to position the private sector as a catalyst for the social economic development in Africa.

Most recently, Ahmed served as an executive director of **H. H. Mansoor Transportation Co. Ltd** which has overseas link and execution in Tanzania boarders and within the country's reach. He is a research analyst working in a number of technical star-ups leading micro small and medium sectors in innovation and research hubs in India and across Africa.

Ahmed, has been a founder of **Demha Recycles Investment Company Limited**, **Demha Technology Institute Limited**, **Demha Consulting (T) Limited**, **Young Students Entrepreneurship Forum** and **H. H. Mansoor Transportation Company Limited**. Ahmed is looking forward to invest in other entities such as Food Products, Logistic, Technology, Construction, Real Estates, Media and Green City Project. The aforesaid companies pave a contribution to entrepreneurship in mapping technical and non technical labour forces to improve the business environment, drive industrialization and wealth creation.

His mission is vesting in magnificent transformation of entrepreneurial landscape in Africa. His vision is centered on establishment of Africa – Global Development Community that can serve as a bridge between the industrial immersions in micro, small and medium enterprises in Africa merging national and multinational corporates.

In addition to the role, he is an independent thought leader with business vision and ability to bring people together leveraging his insights and global perspectives to transform Africa through entrepreneurship. On the other end, he is an author of various books., **Dr. Ahmed Hamad Hilal Mansoor**, **Think Africa Think Big** (An opportunity to learn, inspire, contribute and invest in Africa), **International Business Management** (A Guide to Reveal Fundamental and Technical Analysis in Business), he has more than **150 plus publications** in electrical engineering particularly power systems and **50 plus publications** in other fields.

An African – born Tanzania national, Ahmed has earned his **B. Tech** (Electrical and Electronics Engineering) and **M.Tech** (Power Systems) in Lovely Professional University, he also earned a mini **MBA** certification in Economics and International Business Management in IBMI, German. He is currently earning his **PhD** doctorate degree in Electrical Engineering, domain of Power Systems Security and Stability from Lovely Professional University (India), Telkom University – Study Exchange Program (Indonesia) and University of Toronto – Study Exchange Program (Canada). He lives in Tanzania, Shinyanga, Kahama.