Indira Gandhi
National Open University
School of Management Studies

MS-91
Advanced Strategic Management

Block

1

ISSUES IN CORPORATE MANAGEMENT

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BLOCK 1 MANAGEMENT CONTROL: CONCEPTS AND CONTEXT

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Issues in Corporate Management

1

UNIT 1 CORPORATE MANAGEMENT – AN OVERVIEW

Objectives

After reading this unit, you should be able to:

- understand the nature and scope of corporate management;
- describe the concept, nature, process, benefits and pre requisites of corporate planning;
- appreciate the importance of implementation and evaluation aspects of corporate plan;
- compare distinct approaches to corporate management;
- assess the role of various strategists in corporate management;
- identify factors leading to the need for corporate management; and
- know the differences in corporate management practices adopted by non business organizations.

Structure

1.1 Introduction

1.2 Nature and Scope of Corporate Management

1.3 Corporate Planning

1.4 Implementation of Corporate Plan

1.5 Review and Evaluation of Corporate Plan

1.6 Approaches to Corporate Management

1.7 Strategists and their Role in Corporate Management

1.8 Need for Corporate Management

1.9 Corporate Management in Non Business Organisations

1.10 Summary

1.11 Key Words

1.12 Self Assessment Questions

1.13 Further Readings

1.1 INTRODUCTION

Though corporate planning has been widely used in the United States and some other European Countries for the last thirty five years or so, there seems to be scant use of the term “Corporate Management”. Corporate management is a broad phenomenon and covers a wide spectrum of activities. In the context of strategic management, the term has three dimensions:

- Corporate planning
- Implementation of corporate plans
- Evaluation and control of corporate plans.

On the academic side, research on corporate management has not taken off in India. However, a few studies may be seen with respect to corporate planning.

1.2 NATURE AND SCOPE OF CORPORATE MANAGEMENT

For the sake of convenience, the concept of corporate management has moved through five paradigm shifts as narrated below:

Adhocism – when the exigency used to force the managers to take appropriate action to deal with situation. This continued till 1930.

Planned Policy – the great depression forced the planners and thinkers to have a planned policy. Unforeseen incidents and contingencies are to be anticipated.

Environment-Strategy Interface – the strategy has to cope with environment. The forces of internal and external environment have created uncertainties. In order to cope with such situation, appropriate strategies are being formulated keeping in mind the competitive advantage.

Corporate Planning – involves moving ahead from environmental appraisal to strategic alternatives and choice. The planning needs to be strategic.

Corporate Management – aspects of implementation and control are also considered in corporate planning process. It is a unified and integrated process to get best results.

Nature of Corporate Management

The following aspects are important in this regard:

i) It encompasses the entire management process.

ii) It is concerned with the choice of alternatives, determination of future course of action, mobilization of resources and deployment of resources for attainment of goals.

iii) It is both short term and long term.

iv) It is related to all levels of management. Strategic issues, however, are related to top management.

v) It includes the following phrases:

- Corporate Planning
- Implementation Issues in Corporate Plan
- Evaluation and Control

vi) It is concerned with coping uncertain future with active intervention.

vii) It is based on various types of plan viz strategic plan, functional plan, operating plan, organizational plan etc.

viii) It is all pervasive and integrative.

Scope of Corporate Management

The term corporate management is an extension of the term corporate planning and also includes implementation and control aspects. More specifically, the scope of corporate management is spread over different areas. They are as follows :

i) Role of top management in corporate governance.

ii) Code of conduct including audit committee, governance committee, etc.

iii) Competitive scenario for domestic and global markets.

iv) Competitive scenario for dynamic and global markets.

v) Market structures and net work externalities.

vi) Strategic enablers like IT, R & D, knowledge management and innovations, etc.

vii) Corporate social responsibility including ethics, values and social audit.

viii) Philanthropy as a strategic choice.

Activity I

i) Discuss the nature of corporate management in Indian context.

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ii) Discuss the scope of corporate management.

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1.3 CORPORATE PLANNING

Corporate planning is a comprehensive planning process which involves continued formulation of objectives and the guidance of affairs towards their attainment. It is undertaken by top management for the company as a whole on a continuous basis.

Druker defines corporate planning as "a continuous process of making entrepreneurial decisions systematically, and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions, and measuring the results against expectations through organized systematic feedback.

This definition clearly emphasises the relation of corporate planning to strategy.

According to Hussey "Corporate long range planning is not a technique, it is a complete way of running a business. Corporate planning is a way of keeping the company's eyes open".

The following are the **essentials** of corporate planning.

i) Corporate planning deals with the future of current decisions.

ii) The process of corporate planning integrates strategic planning with short range operational plans.

iii) A few authorities use comprehensive corporate planning, strategic planning, long range planning, formal planning, corporate planning etc. as synonymous to each other.

iv) Corporate planning is viewed as an organizational process resulting in developing strategic intent and action plans to achieve the objectives.

The **object** of corporate planning is to identify new areas of investment and marketing.

The **purpose** of corporate planning process is to formulate the organization's purpose, mission, objectives, goals, policies, programme strategies and major action plans to achieve its objectives.

The **corporate planning process** involves the following steps:

i) Formulation of strategic intent.

ii) Environmental appraisal

iii) Generation of strategic alternatives.

iv) Evaluation of alternatives.

v) Decisions in terms of strategy, policies and programmes.

There are many advantages of corporate planning.

The following are the **benefits** of corporate planning:

i) It ensures a rational allocation of resources and improves coordination between various units or divisions.

ii) With corporate planning, significant improvement in performance is reflected. In US, the percentage improvement in performance was 30-40 percent.

iii) A formal planning system can help the management in responding to a dynamic environment and in managing a strategically complex organization with limited resources.

iv) With corporate planning, a sense of making a systematic and critical review of business is developed.

v) This develops a visionary approach . A habit of forward thinking is encouraged in forward planning.

In India the organizations' corporate planning process could not succeed.

The following can be the **reasons attributed to the failure** of corporate planning in Indian organizations:

i) Failure to keep the corporate planning system simple.

ii) Failure to develop awareness about corporate planning process in the organization.

iii) Corporate planning tries to do all planning by itself.

iv) Chief Executive gives planner a low status.

v) Failure to modify the corporate planning system with the charging conditions in the company.

vi) Planner has only a part time interest in planning.

vii) There is conflict between available soft database and manager's need for hard answers.

viii) Top management becomes so engrossed in current problems that it spends insufficient time on the corporate planning process.

Bhattacharya and Chakravarti have observed some commonalities in instances of successful introduction of corporate planning in Indian companies. A few **prerequisites for success in corporate planning** are as follows:

i) The chief executive must be **totally committed and involved** in the corporate planning process.

ii) **Participation** of those executives who would be responsible for implementation must be ensured.

iii) The process of corporate planning should be introduced on **continuous basis** to cope with ever changing environmental factors.

iv) The executives must understand that the real purpose of corporate planning is to **provide direction** to the organization.

Activity 2

1) Discuss the nature and process of corporate planning.

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2) Name three to four big companies where corporate planning exercise was initiated in recent years.

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3) Briefly mention the reasons of failure of corporate planning.

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1.4 IMPLEMENTATION OF CORPORATE PLAN

Implementation refers to those objectives which are necessary for achieving the plans already formulated. Quite often, companies having good corporate plans are not successful at market place. The planning commission in India has formulated elaborate plans for poverty alleviation through a number of programmes but it is a well known fact that the achievements in terms of the original goals are far from the targets. It is to be noted that the implementation of strategy is mainly an administrative task based on strategic as well as operational decision making. This activity primarily refers to action and doing. The task of strategy formulation is some what distinct. It is primarily an entrepreneurial activity and this managerial task requires analysis and thinking.

Implementation of corporate strategy requires the analysis of the following aspects:

- Project Implementation
- Procedural Implementation
- Resource Allocation
- Structural Implementation
- Behaviorial Implementation
- Functional Implementation

Any organization which is planning to implement strategies must be aware of the procedural framework within which the plans, programmes and projects have to be approved by government agencies. The regulatory mechanisms for trade, commerce and industry in India span the whole range of legal structure from the constitution of India, the Directive Principles of state policy to the rules and procedures imposed by the implementing authorities at the local level. The requirements of licensing SEB, MRTP, foreign collaboration, labour laws, environmental protection laws etc. are to be seen carefully. The **resource allocation for budget** be based on either of the following methods:

- Strategic Budgeting
- Zero Base Budgeting
- PLC Based Budgeting
- BCG Budgeting

The **total responsibilities** to implement strategies (structural implementation) has to be subdivided as follows:

i) Defining the major tasks required to implement a strategy.

ii) Grouping task on the basis of common skill requirements.

iii) Sub-division of responsibility and delegation of authority to perform tasks.

iv) Coordination of divided responsibility.

v) Design and administration of the information system.

vi) Design and administration of the control and appraisal system.

vii) Design and administration of the motivation and development system.

viii) Design and administration of the planning system.

The first four mechanisms will lead to the creation of the structure. The remaining mechanisms are devised to hold and sustain the structure.

The aspects of strategy implementation that have an impact on the behaviour of strategies in implementing the chosen strategies are related to **behaviorial implementation**. In this regard, the following issues are important:

- Leadership
- Corporate Culture

- Corporate politics and use of power
- Personal values and Business ethics
- Social Responsibility

Rather than letting strategy implementation suffer due to politics and power games within organizations, strategists have to learn to use them to implement strategies.

Functional implementation is carried out through functional plan and policies in five different functional areas. Operational implementation is performed in four areas for operational effectiveness. The areas are productivity, process, people and pace. The productivity is the measure of the relative amount of input needed to secure a given amount of output. Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation.

1.5 REVIEW AND EVALUATION OF CORPORATE PLAN

Corporate planning cannot be said to be effective unless management monitor how well the planned actions are matching actual achievements as implementation programmes. If they find that the actual performance does not confirm to the planned performance, corrective action is taken to enforce a strategy that is not being followed or modify corporate plan that is not working. Strategic evaluation operates at two levels.

- Strategic Level
- Operational Level

The idea of strategic control is of a relatively recent origin and its techniques are still in an embryonic stage. Four types of strategic controls are premise, implementation, strategic surveillance and special alert control. Operational control consists of setting standards, measuring performance, analysing variance and taking corrective actions. MBO, network techniques, balanced scorecard, key factor rating, bench marking, value chain analysis, systems modeling, responsibility control centers, etc. are the techniques of strategic evaluation and control.

The following aspects **differentiate strategic control with operational control:**

i) Strategic control is related to external environment while operational control is related to internal organization.

ii) Strategic control has longest time horizon.

iii) Control is exercised exclusively by top management in strategic control.

iv) Budget schedules and MBO are used in operational control.

1.6 APPROACHES TO CORPORATE MANAGEMENT

Corporate management systems vary from organization to organization depending on a variety of factors: environmental conditions, organizational size and complexity, age, top management values and styles. Variations in the corporate management systems across organization may be found first in the top management's basic approach to carry on corporate planning. These approaches are as follows:

Top down Approach:- In this approach, the top management decides everything and the implementation is being taken care of by the middle and lower level management as instructed by top management.

Bottom up Approach:- This approach takes into account the realities and complexities of operations at the ground level. The top management adopts an open door approach. Suggestions are invited from all levels.

Hybrid Approach:- This is a combination of top down and bottom up approaches which is generally used in decentralized companies. There is vertical communication between top management and the Strategic-Business Units (SBUs) at different phases of the corporate planning and implementation process.

Team Approach:- Where lateral communication between the top managers is easier. The chief executive may himself in collaboration with senior managers, prepare corporate plans.

Activity 3

1) What are the methods of resource allocation?

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2) Explain Hybrid approach and Team approach in corporate management.

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3) Distinguish main points of difference between strategic control and operational control.

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1.7 STRATEGISTS AND THEIR ROLE IN CORPORATE MANAGEMENT

Strategists are individuals or groups who are primarily involved in the formulation, implementation and evaluation of strategy. There are persons outside the organization who are also involved in various aspects of corporate management. In this section, we shall assess their role in corporate management:

Board of Directors

The role of the board of directors has come under intense scrutiny in recent times leading to the emergence of the issue of corporate governance. It relates to the functioning of the board of company and the conducting of the business internally and externally. The composition of Board of Directors in some of the organizations is narrated below:

State Bank of India	7	Whole time Directors
	4	Part time Directors
	6	Nominee Directors
Larson & Toubro Ltd.	6	Whole time Directors
	11	Part time Directors
TISCO	2	Nominee Directors
	2	Whole Time Directors
	9	Part Time Directors
Reliance Industries Ltd.	5	Whole time Directors
	4	Part time Directors
	2	Nominee Directors

The Companies Act, 1956 specified the following:

i) One-third of directors will retire by rotation.

ii) A public limited company must have at least three directors and a private limited company must have at least two directors.

iii) Only individuals and not the institution, can be appointed as directors.

The role of the board is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organizational performance and appointing senior executives.

Chief Executive Officer

The CEO is designated as the managing director, executive director, president or general manager in business organization. As the chief strategist, the CEO plays a major role in strategic decision making with the increase in size. Many companies have adopted the practice of sharing the responsibility of chief executive among two or more persons. In India, Reliance Industries has chairman, vice- chairman and managing directors while L&T has managing director and joint managing directors. ITC Ltd. has a multiple executive system in the form of corporate management committee. Attributes like self management and time management are very important for CEOs.

Entrepreneurs

The entrepreneurs always search for change , respond to it and explicit it as an opportunity. The entrepreneur is a venture capitalist. They play a proactive role in strategic management. As initiators, they provide a sense of direction to all concerned. S. Kumar Sundram as the chairman of the Bank of Madurai Ltd., and after his death in 1986, the new chairman S.V. Shanmugavadivelu provide an excellent example of the role of entrepreneurs as strategists.

SBU level Executives

In corporate management, SBU level strategy formulation and implementation are the primary responsibilities of the SBU level executives. They act as divisional heads. They weild considerable authority within the SBU while maintaining coordination with other SBU heads and corporate level management.

Consultants

They assist the organizations in their corporate management process. Smaller organizations may take the benefit of consultants for improving their corporate governance. A.F. Ferguson, S.B. Billimoria, Mckinsey Company, Anderson Consulting etc. are the notable consultants. Boston Consulting helps in building competitive advantage while KPMG Pete Maruick assist in strategic financial management and feasibility studies.

1.8 NEED FOR CORPORATE MANAGEMENT

The following factors have forced the strategists to look into issues of corporate management:

i) Scarcity of Resources

ii) Fast Technological Changes

iii) Changing Human Values

iv) Multiplicity of Stake holders

v) Growing Competition

vi) Liberalization, Privatization and Globalization

vii) Growing Scale of Business Operations

viii) Faster and Quicker Modes of Transportation and Communication

ix) Professionalisation in Management

1.9 CORPORATE MANAGEMENT IN NON BUSINESS ORGANIZATIONS

The basic objective of non-business organizations is to provide service to the people who come in contact with these organizations. Unlike the business organizations which are characterized by profit motive, risk bearing and creation of utilities, non business organizations provide service to the clients. Measurement of the effectiveness of these services is highly qualitative and therefore judgmental. The following are the specific areas where corporate management issues are to be taken with greater care:

i) Non business organizations are not interested in attracting large number of clients. Such organizations do not go for rigorous environmental analysis.

ii) Non- business organizations have larger number of interest groups. In this environment, the corporate management process becomes more political. The decision outcomes may not be as service oriented as is usually conceived.

iii) Non business organizations seldom go through the rigour of strategic management process. They get their resources from the public. They operate on the basis of non focused strategic actions.

iv) The performance evaluation criteria in case of non-business organizations is highly qualitative and therefore judgmental.

Activity 4

i) Critically evaluate the role of Board of Directors in corporate management.

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ii) State three important factors forcing the immediate need for corporate management.

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1.10 SUMMARY

Corporate management is a broad phenomenon and covers the activities of corporate planning, implementation of corporate plans, evaluation and control of corporate plans. The concept of corporate management has moved through the stages of adhocism, planned policy, environment strategy interface and corporate planning. Corporate management has the following broad characteristics.

- encompassing entire management process
- short term as well as long term
- all pervasive, integrative and relates to all levels of management
- concerned with coping uncertain future with active intervention.

Corporate planning is a way of keeping the company’s eyes open. It is a comprehensive planning process which involves continued formulation of objectives and the guidance of affairs towards their attainment. This process is continuous and is carried on by top management. The process involves the following steps:

- Formulation of strategic intent
- Environmental appraisal
- Generation of strategic alternatives
- Evaluation of alternatives
- Decision in terms of corporate plan

In India, corporate planning could not bring desired results. Factors like poor participation, complicated process, part time interest, domination of routine issues bring bottlenecks to effectiveness in corporate planning process.

Implementation refers to those activities which are necessary for achieving the plans already formulated. This administrative task is based on action and decision making. The issues like project, procedure, structure, resource allocation, behaviour and managerial functions need special attention.

Review and evaluation of corporate plan operate at two levels i.e. strategic control and operational control. Budgets, schedules and MBO are used in operational control.

Four types of strategic control are premise, implementation, strategic surveillance and special alert control.

Variations in the corporate management systems may be top down approach, bottom up approach, hybrid approach and team approach. Board of Directors, Chief Executive Officer, Entrepreneurs, SBU level executives and consultants play an important role in corporate management process. Scarcity of resources, fast technological changes, LPG, changing human values etc. are forcing the strategists to push the case of effective corporate management. Non business organizations have to adopt a distinct corporate management process to cope up with the changes in the emerging environment.

1.11 KEY WORDS

Corporate Management :

includes corporate planning, implementation and evaluation.

Corporate Planning :

is a continuous process of making entrepreneurial decisions systematically and with the best possible knowledge of their future, organizing systematically the effort needed to carry out these decisions.

Implementation :

refers to those activities which are necessary for achieving the plans already formulated.

Strategic Control :

is aimed at a continuous assessment of the changing environment to see that the strategy is not out of line with it.

Operational Control :

is directed towards the evaluation of real time action.

Hybrid Approach :

a combination of top down and bottom up approach of corporate management.

1.12 SELF ASSESSMENT QUESTIONS

1) What is corporate planning and what are its important characterstics?

2) “Corporate planning is as good as its implementation” Discuss.

3) What is corporate management? Discuss its nature and scope.

4) Explain the benefits and failures of corporate planning.

5) Narrate corporate planning process in brief. Also state the benefits of corporate planning.

6) Explain various types of implementation issues in brief.

7) What is behavioral implementation? Explain it with the help of the details of a company.

8) What is strategic control? How is it different from operational control?

9) Narrate briefly the approaches to the corporate management. Which one is the best in Indian environment?

10) Critically evaluate the role of board of directors in corporate management process.

11) Write a note on corporate management in non- business organizations.

12) Write notes on the following:

    a) Procedural implementation

    b) Role of consultants in corporate management

    c) Approaches to corporate management.

1.13 FURTHER READINGS

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CORPORATE GOVERNANCE

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Corporate Governance

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UNIT 4 HISTORICAL PERSPECTIVE

Objectives

After going through this unit, you should be able to:

- understand the meaning of corporate governance;
- identify the need for corporate governance;
- trace the history of corporate governance; and
- explain corporate governance in Indian context.

Structure

4.1 Introduction
4.2 History
4.3 Need for Corporate Governance
4.4 Corporate Governance in Indian Context
4.5 Summary
4.6 Self Assessment Questions
4.7 Further Readings

4.1 INTRODUCTION

Change is the order of the day. Advancement in science and technology has changed the way we live. Globalisation and liberalization has changed the way we do our business. There is change in environment, change in culture and change in ethos. This change has brought some negative impacts along with the positive ones. There is decline in ethics and values that ought to be followed by everyone including states and corporates. This means that there is loose governance by these entities. When this happens the objectives set for the entity cannot be achieved. In this unit we shall focus on the meaning, objective and nuances of corporate governance.

Before we understand the term Corporate Governance (CG), let us first understand the term governance. The concept of governance has been known in both political and academic circles for a long time, referring generally to the task of running a government, or any other appropriate entity for that matter. According to the World Bank, " Good governance is epitomized by predictable, open and enlightened policy making, a bureaucracy imbued with professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs." On the other hand, Organisation for Economic Cooperation and Development (OECD) defines governance as the use of political authority and exercise of control in a society in relation to the management of its resources of social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which economic operators function and helps in determining the distribution of benefits, as well as the nature of the relation between the ruler and the ruled. Good governance encompasses all actions aimed at providing its citizens, a good quality of life.

With the rapid change in the business environment and emergence of new regulations by world bodies like EEC, WTO, OECD, World Bank etc., the concept of CG is gaining momentum. Corporate governance is a concept rather than an instrument. It focuses on appropriate management and control structure of a company. Also included in the concept are power relations between owners, the board of directors, management and the stakeholder. Most definitions relate to control of a company or managerial conduct. The Cadbury Report (U.K.) states; “Corporate governance is the system by which businesses are directed and controlled”. OECD definition says, “Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined.” The following definition helps us in understanding the concept even better: “ Corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet some well defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practiced under a well-laid out system, it leads to the building of a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed.” To state in simple terms, corporate governance relates to a code of conduct, the management of a company observes while exercising its powers. Quality corporate governance not only serves the desired corporate interest, but is also a key requirement in the best interests of the corporates themselves.

Box 4.1: Some Useful Definitions of Ethics and Corporate Governance

Sri Aurobindo

But that which determines his ethical being is his relations with God, the urge of the Divine whether concealed in his nature or conscious in his higher self or inner genius.He obeys an inner ideal, nor to a social claim or a collective necessity. The ethical imperative comes not from around, but from within and above him.

Peter F. Drucker
The Ecological Vision (1993)

Above all, the ethics or aesthetics of self-development would seem to be tailor-made for the specific dilemma of the executive in modern organization.

Their function demands the self-discipline and the self-respect of the superior man.

Garrett and Klonoski, 1986:2

Business ethics is concerned primarily with the relationship of business goals and techniques to specifically human ends. It studies the impacts of acts (DECISIONS) on the good of the individual, the firm, the business community and society as a whole…business ethics studies the special obligations which a person and a citizen accepts when he or she becomes a part of the world of commerce.

Robert C. Solomon
Ethics and Excellence (1992)

….integrity, in the face of conflict of the virtues, is the challenge rather than the answer.

It is moral courage… moral courage is not self-sacrifice…

Moral courage is not self-righteous obstinacy and it is not at all opposed to compromise…Moral courage includes an understanding of the big picture, the purpose(s) of the organization, and the way in which the organization or some part of it thwarts its own best intentions.

Corporate governance is a system by which companies are run. It relates to the set of incentives, safeguards and the dispute resolution process that is used to control and coordinate the actions of the agents on behalf of the shareholders by the Board of Directors.

Activity 1

Enumerate five points to highlight the importance of Corporate Governance as a concept than an instrument.

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4.2 HISTORY

Though the terms governance, good governance and corporate governance is increasingly used in development literature since recent times, the concept of governance is not new. It is as old as human civilization. The eastern civilization has enumerable examples, where in emphasis was laid on good governance. The activity of the government of the state, as envisaged by the great eastern thinkers on polity relates to all aspects of human life – social, economic and religious. Peace, order, security and justice were regarded as the fundamental aims of the states (the largest form of corporate). State was considered a means to the realization of decent, good and meaningful life and justice were regarded as the fundamental aims of the states (the largest form of corporate).

Manu, the son of Prajapathi was the first king who brought out a comprehensive code of conduct or governance for men, society and the state as a whole in his treaty called *Manu Dharma Shastra.* In Mahabharata while delivering his first formal discourse on polity, Bhisma says in equivocal terms that the kin should always put the interest of his subjects over that of his own. The great political thinker of 3rd century BC namely Kautilya in his treaty *Arthasastra* has laid down the ideals at which the king was expected to aim.

In eastern literature a good society is one wherein a high, ethical standard of life is characterized by the pursuit of wealth, enjoyment and liberation. It is the prevalence of dharma, which characterizes an ideal society. Such a society is possible if the governance of the country is based on clear, efficient and effective administration and all the rulers aim at this goal in the ancient times.

Box 4.2: Ageless Ethics and Governance

- Satyavadi Raja Harishchandra
- Sri Rama and The Concept of Rama Rajya :*“Raghukul Reeti Sadaa Chali Aayee Praan Jaye Par Vachan Na Jaye”*
- M. K. Gandhi: My Experiments with Truth
- Government of India : Satyameva Jayate

However people in the west started feeling the need for good corporate governance in early 80’s as the corporate misdemeanours increased. In U.K., in 1980s, the corporate sector was beseeched with a number of problems. Business failure, limited role of auditors, weak accounting standards culminated in loss of control. The Cadbury Committee was set up by the London Stock Exchange to address the dreary financial aspect of corporate performance. A few years later, director’s pay became such a live political issue that a study group on director’s remuneration was formed under Sir Richard Greenbury. Then came two other committees – the King Committee and the

Hampel Committee to diagnose the issue of corporate governance. The Asian financial crisis, recent scandals in US, Italy, India have triggered fresh initiatives of thinking towards good governance. Corporate governance has been much talked in India particularly after 1993. Liberalisation brought in its wake a spate of corporate scandals, the first of which was a bank scam involving securities. CRB scam and the UTI episode made it very clear that a serious thinking is required on the front of corporate governance. SEBI in India has taken the initiative in framing new rules and laws to strengthen corporate governance. Committees like Kumara Mangalam Birla Committee (2000), Naresh Chandra Committee (2002) brought out reports on corporate governance. SEBI has also constituted a committee on corporate governance under the chairmanship of Sri N.R. Narayana Murthy.

Presently corporate India is going through a great churning phase, as companies are doing business with global ambition, placing a lot of emphasis on governance and transparency.

4.3 NEED FOR CORPORATE GOVERNANCE

Recent corporate failures and scandals involving mis-governance and unethical behaviour on the part of corporates rocked the corporate sector all over the world, shook the investor confidence in stock markets, and caused regulators and others to question the assumption that most companies do the right thing most of the time. These incidences diminished reputation and goodwill of even those corporates who enjoy the trust and confidence of public at large. These factors highlight the importance of good corporate governance. On the other hand, corporate governance is important because corporate decisions impinge on its shareholders, customer, creditors, the state and employees. Globally the objective of corporate governance is to maximize long-term shareholder value. With the assumption that capital and financial markets are working properly, anything that maximizes shareholder value will necessarily maximize corporate prosperity.

For sound governance, managers need to act as trustee of shareholders, prevent asymmetry of benefits between sections of shareholders, especially between owner-managers and the rest of shareholders. They also need to be a part of societal concerns about labour and environment. In fact stock market analysts see these days a greater correlation between governance and returns. Investment analysts recommend a company based on strength or weakness of a company’s governance infrastructure. Confidence of investors, both domestic and foreign, is the need of the hour. This is to attract ‘patient’ long-term capital that will reduce their cost of capital. Thus, there is a need for intellectual honesty, integrity and transparency, which form the basis for good corporate governance.

Activity 2

State any three prerequisites for a sound corporate governance.

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4.4 CORPORATE GOVERNANCE IN INDIAN CONTEXT

As it was briefly stated earlier, corporate governance has been much talked about in India particularly after 1993. Liberalization brought mixed results for Indian economy. Noticeably, it brought in its wake a spate of corporate scandals. Later on scores of companies made public issues with large premium and then disappeared; prospectus misled the public. The management of most of these companies diverted funds and investors had no option but to repent their lost money. Primary market literally collapsed in the after math of these failures. Slowly, many a family owned businesses moved to become widely held limited companies. The question, how to function in a corporate setup overriding family interest and obligations called for a code of governance. Similarly, corporate banks also came under strain due to scams; governance failure was total. The story of UTI is also well known where millions of small investors lost their capital due to inadequate management practices and weak supervision.

Auditors were following questionable accounting practices on behest of the management and often advising on how doubtful accounting choices might be made so as to remain on the right side of law and at the same time, escape detection by users of financial information. All these factors put strong pressure on many corporates to evolve a good governance practice.

Over a period of time in India companies like Tata Group, Infosys, Wipro have evolved sound principles of governance, intertwining corporate governance with social responsibility. These companies have become global and it is common to find global norms of accounting and disclosure being followed in these corporate houses. Rights of employees, stock options, independent directors, meeting quality norms, price warranty and guarantee- all these have made room for quality governance. Managers have indeed become trustees of shareholders.

It began in 1998 with the Desirable Code of Governance- a voluntary code published by CII, and the first formal regulatory framework for listed companies, established by the SEBI in February 2000, following the guidelines enunciated by the Kumara Mangalam Birla Committee Report. On 21st August, 2002, the Department of Company Affairs under the Ministry of Finance appointed Naresh Chandra Committee to examine issues pertinent to governance. The committee looked into financial and non-financial disclosure and independent auditing and board oversight of management.

Apart from financial compliance or disclosure, the independent oversight of management is also important. Many companies have disappeared, vanished either due to fraud or poor quality of board resulting in lack of independent oversight. The Kumara Mangalam Birla Committee focused on the role of independent and statutory auditors and also the role of the board of directors.

SEBI constituted a committee on corporate governance under the chairmanship of Sri N. R. Narayana Murthy. The committee included representatives from the stock exchange, chamber of commerce and industry, investor associations and professional bodies, which debated on key issues related to corporate governance. Findings and recommendations of these committees are discussed in the later chapter.

Thus we find that the corporate India is going through a great churning phase. New aggressive companies are doing business with global ambitions, placing a lot of emphasis on governance and transparency. FIIs are very serious about good governance and disclosures. Liberalization brought great challenges, after initial jolts and pain of restructuring, companies are seeing profits more than before.

4.5 SUMMARY

Good corporate governance is good business because it inspires investors confidence, which is very essential to attract capital. A few unscrupulous businessmen can, largely undo all the confidence built through the good work by the good companies over time. They need to be handled with iron hands.

However, corporate governance goes beyond the realm of law. It comes from the culture, mindset of management and cannot be regulated by legislation. The watchwords are openness, integrity and accountability.

Companies need not be myopic with short-term goals, caring only about quarterly results or immediate stock prices in the bourses, or that cherished P/E ratio. Good governance maximizes long-term shareholder value, which in turn takes care of short-term goals too.

4.6 SELF ASSESSMENT QUESTIONS

1) Explain the concept of Corporate Governance.

2) Why has it become necessary for business houses to have a good Corporate Governance? Discuss.

3) Discuss the emergence of Corporate Governance as a concept.

4.7 FURTHER READINGS

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Block

3

COMPETITIVE SCENARIOS AND STRATEGY

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BLOCK 3 COMPETITIVE SCENARIOS AND STRATEGY

The dynamics of the environment in which a firm operates plays a critical role in the formulation of its strategy. It can increase or decrease opportunities or threats for a firm and can often force the firm to make strategic adjustments. Hence, a basic understanding of the changes in the environment it operates and a correct response to these changes can mean the difference between success and failure of a firm. **Block 3** deals with the various business environments which exist and the strategic choices which are available to a firm in each case.

Unit 7 Strategies for Dynamic and Stable Markets starts off by explaining the key differences between dynamic and stable environments. The concept of product life cycle and how this concept helps predict the events in the environment is explained in this unit. It then describes the characteristics of dynamic and stable environments and the strategic options available to firms in different environments.

Unit 8 Strategies for Global Markets deals with strategies in global markets as opposed to domestic markets which are dealt with earlier in MS 11: Strategic Management. This unit explains the global business environment and the drivers for global expansion. It then explains the strategic choices available to a firm and the various modes of entry into global markets.

Unit 9 Market Structures and Network Externalities deals with the network externalities and how they affect the strategies of a firm. The **Block** ends with a case of a truly Indian MNC – Ranbaxy Laboratories Ltd. to illustrate how companies can use global expansion as a growth strategy.

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COMPETITIVE SCENARIOS AND STRATEGY

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UNIT 7 STRATEGIES FOR DYNAMIC AND STABLE MARKETS

Objectives

After reading this unit, you should be able to:

- understand the difference between dynamic and stable environments;
- know how the concept of life cycle predicts the events and explains the dynamics in the environment;
- identify the characteristics of a dynamic environment and know the different strategies applied in a dynamic environment; and
- finally, understand the various strategies adopted by firms in a stable environment.

Structure

7.1 Introduction

7.2 Concept of Product Life Cycle

7.3 Dynamic Environment

7.4 Strategic Choices in a Dynamic Environment

7.5 Decision to Enter Dynamic Markets

7.6 Stable Environment

7.7 Strategies in a Stable Environment

7.8 Summary

7.9 Self Assessment Questions

7.10 Key Words

7.11 Further Readings

7.1 INTRODUCTION

The dynamics of an industry plays a critical role in the formulation of a firm's strategy. It can increase or decrease opportunities or a threat for a firm and it often force the firm to make strategic adjustments. A basic understanding of the process of evolution is essential since correct response to the change in the competitive environment can mean the difference between success and failure of a firm. The first part of the unit will present the concept of product life cycle to explain the process of industry evolution and its significance for the formulation of strategy. In the latter part of the unit, growth strategies in dynamic and stable environments will be dealt in detail.

7.2 CONCEPT OF PRODUCT LIFE CYCLE

In today's business environment, it is not clear what changes are taking place currently, much less predict which changes will occur in the future. Given the importance of predicting the business environment accurately, it is desirable to have a robust technique which will help in anticipating the pattern of industry changes that one can expect to occur.

One of the most well-known and reliable tools for predicting the probable course of events in the future is the product life cycle (PLC) concept. The basic hypothesis of this concept is that an industry passes through a number of phases starting with introduction followed by growth, maturity and decline phases. Product life cycle theory predicts that industry growth follows an *S*-shaped curve because of the process of innovation and diffusion of a new product. The introduction phase is often characterized by a flat curve reflecting the difficulty of overcoming the buyers' inertia and their initial reluctance to try unknown and untested product. However, the product enters a rapid growth phase once the product proves successful. This rapid growth phase reaches a plateau once the product reaches all the potential buyers. This phase is called the maturity phase. In the final phase of the product life cycle the growth tapers off and the demand for the products starts declining as new substitutes start appearing in the market. The predictions of product life cycle theory about the strategies, competition and performance are explained in the table below.

Table 7.1: Strategy, Competition and Performance in Different Phases of Product Life Cycle

	Introduction	**Growth**	**Maturity**	**Decline**
Product	Poor quality, no standards, frequent design changes, basic product design	Good quality, product improvements, technical and performance differentiation	Superior quality, standardization, less product changes, less product differentiation	Very little product differentiation
Buyer behaviour	Buyer inertia, buyer need to be persuaded to try the product	Buyers will accept uneven quality, widening buyer groups	Repeat buying, saturation, mass market	Buyers are sophisticated
Marketing	High advertising expenditure and high marketing costs, skimming pricing	Higher advertising costs but as percentage of sales it will be lower than introduction	Broaden product line, market segmentation, service is important and deals are quite common	Low advertising and marketing costs
Strategy	Increase market share quickly, R&D and engineering capabilities are key factors	Change price and quality image. Marketing is a key area	Competitive cost is key. Bad time to increase market share. Also bad time to change price or quality image	Cost control key
Competition	Few competitors	Many competitors	Price competition, shakeout	Exits and fewer competitors
Risk	High risk	Growth covers risk	Cyclical trend sets in	
Margins and profits	High margins and low profits	Highest profits and fairly high prices	Lower profits, lower margins, falling prices. Increased stability of market shares	Falling prices, low prices and margins. Price may rise in later stages of decline phase

One major limitation of the PLC concept as predictor of industry evolution and dynamics is that it attempts to describe one pattern of evolution which will invariably occur. And except for the industry growth rate, there is little or no underlying explanation provided by this concept as to why the competitive changes associated with life cycle will happen. Moreover, the industry evolution can have so many different paths, the life cycle pattern may not always hold good. Nevertheless, the PLC is a robust model of industry evolution and it predicts the strategy, competition and the performance of a firm in different business environments. Generally, industries which have products in the introduction and growth phases operate in a dynamic environment, while those with products in the mature phase operate in a more stable environment. The stable and dynamic industry segments differ from one another due to the difference in speed and direction of the following industry dimensions:

- Long-term changes in growth
- Changes in buyers' segments
- Buyers' learning
- Diffusion of proprietary knowledge
- Product innovation
- Marketing innovation
- Process innovation
- Government policy changes
- Entry and exit of competitors

A good understanding of all the above dimensions that can shape the industry dynamics will assist a firm to face and in some cases even influence the structural changes. A firm's ability to predict the future events will provide a valuable head start to direct environmental forces in ways appropriate to the firm's position. In fact, successful firms do not view environment change as *fait accompli*, to adjust to, but as an opportunity.

Industry environments vary in their basic strategic implications along a number of important dimensions, namely:

- Industry concentration
- State of industry maturity
- Exposure to international competition

The following sections will discuss the industry environment and the strategies based on these dimensions. In addition, in each of these environments, the structure of the industry, strategic issues and strategic alternatives are also discussed. Two important business environments are selected for discussion, namely dynamic environment characterized by very dynamic changes and stable environment typified by steadier and stable variations.

7.3 DYNAMIC ENVIRONMENT

Generally dynamic environment is characterised by newly formed or re-formed industries that has been created by technological innovations, emergence of new consumer needs/ segments, or other socio-economic changes that elevate a new product or a service to the level of potentially viable business opportunity. Dynamic environment is also created when old/traditional industries experience fundamental shifts in competitive rules coupled with growth in scale by orders of magnitude, caused by some of the factors mentioned earlier. The essential characteristic of a dynamic environment is the absence of any "rules of the game" which may pose a risk or provide an opportunity. In either case it must be managed from the strategic management point of view. The following section outlines the common characteristics of dynamic industry environment.

Characteristics of Dynamic Environment

Embryonic and Spin-off Firms

Dynamic environment has a greater proportion of newly formed companies compared to more stable industry environment. Related to the presence of these companies is that of many spin-off firms or firms created by personnel leaving firms in the industry to create their own firms.

Technological and Strategic Uncertainty

Usually there is a great deal of technological uncertainty in a dynamic industry environment. Alternate production technologies may be at R&D stage or experimental stage, all of which not be tried on a large scale. Related to the technological uncertainty, but on a broader scale, are a wide variety of strategic approaches often tried by the industries in dynamic environment. There is great deal of uncertainty about the strategies of the competitors with different firms following different approaches to product/market positioning, marketing, etc.

High Initial Costs coupled with steep Cost Reduction

Small production volumes coupled with newness of technological/production process produce high costs in a dynamic environment relative to a more stable environment. But the steep learning curve is followed rapidly by a succession of ideas related to improved production procedures, plant layout, and employee productivity and so on. Additionally, increasing sales make major additions to the scale and accumulated volume of output produced by firms. If the gains due to learning are combined with increasing market opportunities, the initial high costs are eclipsed by the rapid decline in costs.

First-Time Buyers

Most of the buyers of the new product/services produced by embryonic industries in a dynamic market are first-time buyers. The task of a firm in a dynamic environment is thus of convincing the buyers and persuading them to try the new products or services instead of the existing ones.

Short-Time Horizons

The pressure to develop customers or produce products to meet the demand is so great that problems are dealt expeditiously rather than relying on comprehensive analysis of future conditions.

The other features of a dynamic industry environment include inability of firms to obtain raw material and components, absence of required infrastructure, absence of product or technological standardization, erratic product quality, customers' confusion, etc. In an environment described above, firms will have to craft a strategy to survive and thrive which radically differs from strategies adopted by firms in more stable conditions. The following are some of the generic strategic alternatives available to a firm.

7.4 STRATEGIC CHOICES IN A DYNAMIC ENVIRONMENT

Industries operating in a dynamic environment have to cope with the uncertainty and risk inherent in the industry environment. The industry structure is highly amorphous, unsettled and rapidly changing and the rules of the game are largely undefined. Despite these factors, the dynamic phase of an industry is perhaps the time when there is a tremendous amount of latitude and freedom to experiment with new strategies and when the leverage from good choice is the highest in determining performance.

One of the strategic choices in a dynamic environment available to a firm is shaping and influencing the industry structure. A firm can set the rules of the game in areas such as product policy and new product development, marketing approach, and pricing strategy. The firm can seek to define the rules within the constraints dictated by the economics of the industry and its own resources in a way that yields the strongest position in the long run.

Another strategic choice available to a firm to compete in a dynamic environment is changing the orientation of its suppliers and channel partners. A firm must be willing to shift the orientation of its suppliers and distributors as the industry grows and starts maturing. Suppliers should be encouraged (sometimes coerced) to respond to the firm’s special needs in terms of varieties, service and delivery. Similarly the distribution channels should be made more receptive in terms of investing in distribution facilities and infrastructure, advertising, etc. and cooperate with the firm in all its marketing endeavours. Exploiting the supply chain in the early stages of the industry can provide strategic leverage to the firm.

Given the dynamic nature of the industry environment and the fast pace of change, firms can adopt the strategy of exploiting their innovations and building an enduring long run competitive advantage based on low cost or differentiation. Three variants of innovative strategy are available for a firm: i) to develop and market the innovation itself; ii) to develop the market and innovation jointly with other companies through a strategic alliance, and iii) to license the innovation to others and let them develop the market. The optimal choice of the strategy depends on three factors, namely, the possession of complementary assets to exploit its innovation and create a competitive advantage, the height of barriers to imitation by the competitors and the presence of capable competitors that can rapidly imitate the innovation.

Complementary assets are those required to exploit an innovation such as competitive manufacturing facilities capable of maintaining high product quality while ramping up the volume to meet the rapidly growing customers’ demand and state-of-the-art manufacturing facilities that enable the firm to move quickly down the experience curve without encountering any hitches and bottle-necks in the production process. Complementary assets also include marketing know-how, adequate and competent sales force, access to good distribution channels, and an after-sales service and support network. These assets, in particular, can develop brand loyalty and help the firm penetrate the market rapidly.

Barriers to innovation are factors that prevent the competitors from imitating a firm’s distinctive and unique competencies. These barriers particularly are effective in preventing second and late entrants from imitating the innovation. Ultimately, all innovations are susceptible to imitation, but the higher the barrier the more difficult it is for the rivals to imitate.

Capable competitors are firms that can rapidly imitate the pioneering company. A rival’s ability to imitate an innovation essentially depends on its R&D skills and access to complementary assets. In general, the greater the number of rivals with such capabilities, the more rapid is the imitation likely to be.

The strategy of going alone with the innovation makes sense when: i) the innovator has the necessary complementary assets to develop the innovation, ii) the barriers to imitation are high, and iii) the number of capable competitors is limited. The second variant of the innovation strategy, namely, developing and marketing the innovation jointly through a strategic alliance makes sense when i) the innovator does not possess complementary assets, ii) barriers to imitation are high and iii) there are quite a few capable competitors. Such an alliance is expected to prove mutually beneficial and each partner can share in high profits which neither of them is capable of earning on their own. The final variant of the strategy which involves licensing makes most sense when the i) innovating company lacks the complementary assets, ii) barriers to imitation are low, and iii) there are several capable competitors.

A vital strategic decision for competing in a dynamic industry is the appropriate timing of entry. While entry barriers are low in an emerging or embryonic industry, the risk can be quite substantial. Entering early is generally recommended when:

- Image and reputation are important to buyer and the firm is confident of developing a good reputation by being a pioneer.
- Customer loyalty is valuable and being first to the market helps build customer loyalty.
- Being early puts the firm ahead of others on the learning curve, experience is difficult to imitate and it will be neutralized by future technological generations.
- Absolute advantage can be gained by early commitment to suppliers, channel partners, etc.

However, early entry is risky when:

- Cost of opening up the market such as customer education/awareness, regulatory approvals, etc. is great.
- Technological change will make early investments obsolete and the second and late comers can gain advantage by having access to more advanced and newer technologies.
- Early competition with small firms will be replaced bigger and more formidable competition at a later stage.

7.5 DECISION TO ENTER DYNAMIC MARKETS

A dynamic and developing industry is attractive to enter if it has the potential to provide above average returns and if the firm is confident that it can create a defendable position in the long run. Quite often firms enter dynamic and risky industries when the existing firms are going rapidly and making good profits or the ultimate size of the industry promises to be large. These are valid reasons to enter the market, but a firm has to ultimately carry out a structural analysis of the industry/ environment (Porter’s five forces model) before leaping into the fray.

Activity 1

You work for a company in the IT Industry (software) that has developed new software for banking industry. There are several other competitors who are also on the verge of introducing software products for the same industry. You need to do the following:

i) Give a report to the management about the external environment. and the strategies to compete in this environment.

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ii) On the basis of this report, recommend strategies to compete in this environment.

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7.6 STABLE ENVIRONMENT

As the industry traverses the dynamic phase, the intense competition during this stage leads to a shake-out phase. As consolidation takes place, the industry enters a stable phase characterised by a small number of large companies. And though the stable industry may have some medium and small enterprises, the large companies dictate the competition because they can influence the Porter's competitive five forces. In fact, these are the companies that developed the most successful generic strategies in the industry. The transition to stable environment is nearly always a critical period for companies in an industry. It is a period during which fundamental changes often take place in companies' competitive environment, requiring difficult strategic responses. Many firms have trouble perceiving these environmental changes clearly; even when they do, responding to them may require changes in strategy that firms may shy away from. A shift to a more stable or mature industry environment can often bring about a number of important changes in an industry's competitive environment. These are discussed below.

- With companies unable to maintain past growth rates merely by holding market share, they turn their attention to attacking the shares of the others. This may lead to outbreaks of price, service, and promotional warfare.

- The product is no longer new and buyers are more knowledgeable and experienced, having already purchased the product, sometimes repeatedly. The buyers' focus shifts from deciding whether to purchase the product at all to making choices among brands. As a result of slower growth, more knowledgeable buyers, and usually greater technological maturity, competition tends to become more costly and service oriented.

- As the industry adjusts to slower growth, the rate of capacity addition in the industry slows down. Firms need to monitor competitors' capacity additions, and closely time its capacity additions with precision. This is rarely done and overshooting of industry capacity relative to demand is, therefore, common.

- As a result of technological maturity, often accompanied by product standardization and increasing emphasis on costs, transition to stable environment is often marked by the emergence of significant international competition. International rivals have different cost structures and different goals compared to domestic firms.

- Slowing growth, more sophisticated buyers, more emphasis on market share, and the uncertainties and difficulties of the required changes usually mean that industry profits fall in the short run from the previous levels. Some firms may be more affected than others, the smaller firms generally the most. Falling profits reduce cash flow during a period when they are needed the most.

Rapid growth in the dynamic stage tends to hide errors and allow most companies in the industry to survive and even to prosper financially. Experimentation is high, and a wide variety of strategies can coexist. Carelessness and negligence are, however, generally exposed by stable industry. However, Maturity may force companies to meet head-on the need to choose among the various strategies described in the next section.

7.7 STRATEGIES IN A STABLE INDUSTRY ENVIRONMENT

In a stable industry environment, strategic group of industries follow similar generic strategies. Companies follow the same strategies as their rivals because any change during this phase is likely to stimulate a competitive response from their rivals. In fact, the main issue that firms need to contend in a stable industry environment is to adopt a strategy that simultaneously allows the firms to protect its competitive advantage while preserving industry profitability. In other words, in stable industry environment, competitive strategy hinges on how large companies collectively try to reduce the strength of the five forces of industry competition to preserve both individual and industry profitability. In the next section, the various price and non-price strategies adopted by firms in a stable environment to deter entry of rivals into an industry and to also reduce the level of rivalry within an industry are discussed.

Firms can generally use three strategies to prevent rivals from entering an industry. They are product proliferation, price cutting and excess capacity.

Product Proliferation

Most companies produce a range of products instead just one product. This is done to target different segments with different products. Sometimes, companies expand their product range to fill are market niches, which creates an entry barrier for potential entrants sine they will now find it harder to break into an industry in which all the gaps or niches are filled. This strategy of plugging market niches is called product proliferation.

Rationalizing the Product Mix

Although a broad product line and frequent introduction of new varieties and options may often be necessary and desirable, cost competition and fights for market share are too demanding sometimes to follow a product proliferation strategy. As a result, pruning of unprofitable items from the line and focusing attention on items that have some distinctive advantage (technology, cost, image, etc.) is more desirable.

Process Innovation

The importance of process innovations usually increases in stable and mature industry environment, as does the advantage of designing the product and its delivery system to facilitate lower-cost manufacturing. The success of the Japanese industry in industries such as electronics, automobiles, etc. is attributed to this strategy.

Price Cutting

In some situations, price cutting can be used as a strategy to deter entry of other companies, thereby, protecting the profit margins of the incumbents in the industry. For instance, a firm can charge a high price for the product initially to seize short term profits and then cut prices aggressively to build market share and deter new entrants at the same time. The current players in the industry can thus send a signal to the potential entrants that if they enter the industry, the incumbent players will use their competitive advantage to drive down prices to a level which will make it unviable for new entrants to compete at that level.

Excess Capacity

A third strategy that firms use to discourage entry of potential rivals involves maintaining excess capacity, that is, producing products much more in excess of the demand. The incumbent companies may intentionally develop excess capacity to warn potential new entrants that if they enter the industry, existing firms will strike back by increasing the output and putting a downward pressure on prices until the entry would become unprofitable.

Buying Cheap Assets

Sometimes assets can be acquired very cheaply as a result of the distress sale of assets by companies unable to make successful transition to stable environment. A strategy of acquiring distressed companies or buying liquidated assets can improve margins and create a low-cost position if the rate of technological change is not too great.

Competing Internationally

A firm may break out of the stifling stable environment by competing internationally where the industry is more favourably structured. Sometimes equipment that is obsolete in the home market can be used quite effectively in international markets, significantly lowering the costs of entry there. Or industry structure may be a great deal more favourable internationally, with less sophisticated and powerful buyers, fewer competitors, etc. The shortcomings of this strategy are the usual risks involved in international competition.

Apart from discouraging new entrants, firms also use strategies to manage their competitive interdependence and decrease rivalry. Several options are available to companies to manage rivalry within the industry. Product differentiation is one such option. It allows a firm to compete for market share by offering different products or by using different marketing techniques. The four competitive strategies based on product differentiation are based on different combinations of product and market segments (not markets as in Ansoff's matrix) are as follows:

Market Penetration

When a company expands market share in its existing product markets, it is said to follow market penetration strategy. This strategy involves heavy advertising to promote and create product differentiation. In a stable and mature industry the major objective of promotion is to influence consumers' choice for the company's brands and products. A company can thus increase its market share by attracting customers.

Product Development

This strategy involves creation of new or improved products to replace existing ones. Product development strategy is vital for maintaining product differentiation and building market share.

Market Development

Market development strategy involves finding new market segments for a company's products. A firm following this strategy will try to capitalize on its brand reputation in one market segment by looking for new market segments in which to compete.

Product Proliferation

This strategy is used to manage rivalry within an industry and to deter entry. Product proliferation strategy essentially involves having a product in each market segment or niche and compete face-to-face with rivals for the customers.

Activity 2

Search the Web for a company which is in a stable environment. Based on the information available about the company and the industry it is operating in, try to explain and comment on the current strategy it is pursuing.

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7.8 SUMMARY

In this unit we have discussed the various strategies that firms can use in different industry environments. Developing an appropriate strategy to suit the needs of different industry environments is crucial for a firm's survival. Companies must always be prepared for changes in the conditions in their environment if they are to respond to these changes in a timely manner.

In dynamic markets, developing a strategy to exploit technical innovations is a crucial aspect of competitive strategy. The three strategic choices for a firm in a dynamic industry are: i) to develop and market the technology by itself, ii) to do so jointly with another company, or iii) to license the technology to existing companies.

Stable environment is characterised by a few large companies whose actions are so highly interdependent that the success of one company's strategy depends upon the responses of its competitors. The principal actions initiated by companies to deter entry of competitors are: i) product proliferation, ii) price cutting, and iii) maintaining excess capacity. The principal actions initiated by companies to manage rivalry in a stable and mature industry include market penetration, product development, market development and product proliferation.

7.9 SELF ASSESSMENT QUESTIONS

1) What are the characteristics of a dynamic environment? List some industries which are facing this situation and describe the features of the environment in which they operate.

2) For a firm which is operating in an industry listed in the answer to the previous question, suggest some strategies to survive and thrive.

3) How is stable environment different from a dynamic environment? Mention a few industries which in your opinion are operating in a stable environment. Explain briefly the characteristics of a stable industry environment.

4) Suggest suitable strategies for industries which you believe are operating in a stable environment.

7.10 KEY WORDS

Dynamic Environment: Dynamic environment is characterized by newly formed or re-formed industries that has been created by technological innovations, emergence of new consumer needs/segments or other socio-economic changes that elevate a new product or a service to the level of potentially viable business opportunity.

Excess Capacity: A strategy that firms use to discourage entry of potential rivals by maintaining excess capacity that is, producing products much more in excess of the demand.

Market Development: Market development strategy involves finding new market segments for a company's products.

Market Penetration: When a company expands market share in its existing product markets, it is said to follow market penetration strategy.

Product Life Cycle: An industry passes through a number of phases starting with introduction followed by growth, maturity and decline phases. This concept is called product life cycle.

Product Proliferation: Most companies produce a range of products instead just one product. This is done to target different segments with different products. This strategy of plugging market niches is called product proliferation.

Price Cutting: In some situations, price cutting can be used as a strategy to deter entry of other companies, thereby protecting the profit margins of the incumbents in the industry.

Stable Environment: As the industry traverses the dynamic phase, the intense competition during this stage leads to a shake-out phase. As a result, the industry enters a stable phase characterised by a small number of large companies.

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STRATEGIC ENABLERS

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BLOCK 4 STRATEGIC ENABLERS

Increasing competition, higher performance levels, globalisation, and liberalisation are posing immense challenges to organisations today. To cope with these challenges, organisations need to develop tools and techniques not only to strengthen operational efficiency and effectiveness, but also to quickly and constantly respond to customer needs and competitive pressures. This block discusses some very important tools or *strategic enablers* that help a firm implement the strategies much more effectively. In fact, there is a real chance of the strategy failing and a company losing its competitive edge if these enablers are not in place.

Unit 12 IT and Strategy explains the importance of IT to a firm in today's competitive and hostile environment and the various factors that have to be considered while designing a firm's IT architecture and infrastructure and the critical role of IT in fostering innovation and enhancing the performance of the firm. This unit also deals with two important emerging IT issues, namely e-business and role of IT in services to improve service quality and service delivery.

Unit 13 R&D and Strategy provides a framework, which can be used to analyze and understand the linkages between R&D and competitive strategy and/or competitive advantage of a firm. This unit broadly deals with methods for identification and selection of R&D projects and the steps involved in developing a R&D strategy. It also discusses the need for establishing a dedicated strategic planning group within the R&D department and top management commitment to implement a R&D strategy. Finally the unit explains the reason for the limited progress made by companies in the realm of R&D strategy.

Unit 14 Knowledge Management deals with another important strategic enabler, i.e., Knowledge Management (KM). It mainly focuses on explaining the concept of KM, sources and types of knowledge, framework for KM and finally, the benefits of KM and challenges for implementing KM in an organisation.

Unit 15 Innovation deals with the fourth strategic enabler, namely, innovation. Innovation can be defined as the successful exploitation of new ideas. The challenge for companies is to be innovative and creative to bring to the market a stream of new and improved, added value, products and services that enable the business to achieve higher margins and thus profits to re-invest in the business. This unit acquaints you with the concept of creativity and innovation, discusses the various factors influencing innovation and creativity, explains the characteristics of innovative organisations and familiarises you with various techniques to enhance creativity of individuals in an organisation.

In the end, case studies illustrating the application of Knowledge Management in healthcare and aero space industries have been included to explain this concept clearly.

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MS-91
ADVANCED STRATEGIC MANAGEMENT

STRATEGIC ENABLERS

4

UNIT 10 IT AND STRATEGY

Objectives

The objectives of this unit are to familiarlise you with:

- the importance of IT in strategy;
- the various factors which influence the choice of IT architecture and infrastructure;
- role of IT innovation and performance of a firm;
- e-business and steps in e-business plan; and
- the role of IT in service quality.

Structure

10.1 Introduction

10.2 IT and Strategy

10.3 Use of IT in Strategy Implementation

10.4 IT for Innovation and Performance

10.5 E-Business

10.6 IT in Service Sector

10.7 Summary

10.8 Self Assessment Questions

10.9 Further Readings

10.1 INTRODUCTION

Increasing competition, higher performance levels, globalization, and liberalization are examples of the immense changes that most of the organizations face today. Companies are forced to continuously and organically re-organize and re-shape themselves, meanwhile changing functional hierarchies into flexible, high performance network organizations. To cope with these challenges, organizations need to consider information technology (IT) as an important factor; not only to strengthen operational efficiency and effectiveness, but also to quickly and constantly respond to customer needs and competitive pressures with IT-enabled products, services, and distribution channels, and IT enabled links with customers, suppliers, and other stakeholders.

The rapid growth of technological innovations and the synthesis of information technology and computer networks are radically changing the way companies compete. Many business enterprises are making strategic commitments to technology for the purpose of gaining and sustaining competitive advantage in their industry. The creation of a competitive advantage through the use of information technology (IT) requires business executives to control this vital corporate resource and manage its use.

Over the last two decades, information technology has progressed from a purely academic topic to the point where it has been absorbed into the mainstream. There is hardly a company of any size that does not depend on information technology for its operational success. In spite of this success, information technology is often regarded as necessary evil consuming vast amount of resources yet having little strategic impact on an organization. Information technology is transactional and operational; it aids an organization to automate many of the main operational processes; it enhances efficiency but its effectiveness is often a suspect.

Organizations see information technology as contributing to some of their goals - but they tend to be those associated with financial performance rather than with performance on the key and core strategic aspects. The nature and role of information technology has developed over the years. The original notion and practice involved the automation of simple, and single, existing manual and pre-computer mechanical processes. The next stage saw information technology deployed to achieve integration and rationalization of these separate, single systems. In each of these approaches, IT was (and largely still is) used primarily as an operational support tool.

By contrast with other waves of new technology, IT has a number of distinctive features that make its potential to influence social change very significantly. These features include:

- **Ubiquitous Application:** Users irrespective of the type of business or role they perform can apply information technology in many different ways. An e-mail system, access to the Internet and data processing capability are just as relevant for a hospital as for a component manufacturer. In fact it is highly likely that they use similar hardware and software and could communicate and exchange data quickly and easily should they need to.

- **Dramatic Rate of Cost Decline:** The price of processing power, data storage and transmission has fallen drastically. Today a simple electronic toy contains more processing power than was used on the Apollo space programme.

- **Universal Ownership:** The increasing utility and ever lower cost of hardware and software means that they are now almost universally adopted. However the availability of bandwidth to enable rapid communication and transmission of data remains a problem in India and is, therefore, a block to further development.

- **Exponential Growth:** Continuous, rapid development and innovation means that the trends to cost reduction and capacity increase continue. The earliest telegraph equipment, using movable arms, had a capacity of 0.2bits per second while a fibre optic cable has a capacity of more than 10 billion bits per second. These developments suggest that the pace of change is going to be at least maintained and almost certainly increase due to endogenous growth.

A review of the literature suggests that many factors independently and collectively influence a firm’s competitiveness (Porter, 1980). However, a growing stream of research since 1980 has examined the concept of IT as a powerful competitive factor for organizations (Porter and Miller, 1985; Barney, 1999). Recent research has suggested the need for a more integrative approach between IT objectives and business strategy. Other research has examined the value of IT as a viable competitive factor resulting in increased productivity, improved profitability, and value for customers. Studies on the role of IT in competitiveness have been primarily focused on large organizations. Few studies have emphasized the strategic importance and the value of IT in competitiveness. However, in today’s global market, and with the use of Internet and electronic business, even small and medium-size enterprises (SMEs) employ IT to increase their competitive position along with their large counterparts. This is believed to be due to fewer obstacles associated with systems integration and more flexibility to implement change.

In order to take full advantage of IT and to compete in the global business environment, the top management must recognize the strategic value of IT and exploit it. However, very few understand technology issues to incorporate them into their strategic plans. For this reason, IT professionals must identify information needs of the organization and develop an IT strategy that is in line with the overall corporate strategic plan. User departments and top management should participate in the development of an IT plan and communicate their needs to IT professionals. An IT plan includes factors such as: a computer hardware and software requirement, systems definition, changes to the existing systems and procedures, and the schedules and resource requirements for each project.

10.2 IT AND STRATEGY

Information technology (IT) in every organization normally evolves from a means to improve the efficiency and effectiveness of an organization to a means to influence the strategic position of the company. The way in which management controls IT has changed simultaneously. In the first stage of IT implementation, efficiency is the primary goal and the attention of management is mainly focused on technology. In this stage, the IT professional is generally an outside consultant, who decides what is best for the organization. In subsequent stages, the effective functioning of the organization becomes as important a goal as efficiency. The management then becomes conscious of the fact that, next to technology, the design and structure of the organization is a decisive factor. User participation, information planning and the appointment of steering committees are indications of this. These organizations increasingly recognize the need for a methodical approach to IT planning, as a result of disruptions in management, reorganization, cost increase, or new usage possibilities.

To a large extent, organizations which have more experience with automation realize that IT can, not only improve the efficiency and effectiveness, but also that it is of decisive importance to the company’s success. IT planning, subsequently, acquires a strategic quality in these organizations and, in fact, functions as a catalyst in all this. These organizations set up business architecture and IT architecture, based on an objective, qualitative and quantitative analysis into the current use of information technology.

A good strategy cannot easily be copied by competitors, because of the organizational, financial, social and technical cost and the trial period involved in attaining the strategy. Every organization has its own profile, environment and aims. Strategy indicates how the organizational structure should be designed and what the use of IT should be and should, therefore, be sufficiently concrete and specific. A specific strategy leads to a unique interpretation of the architecture and the infrastructure.

A good strategy focuses less on the product or the service itself and more on the delivery of services, reputation, etc. This is especially important for products that have been “commoditized”. That is the reason why strategies differ in the same sector to a high degree. For example, difference in strategy arises when the focus of a company is either the top or the bottom of the market. For instance, quality, product features and product innovation are applied in a very different ways in different segments of the same market. This leads to very different information needs and to a unique use of IT within the same sector. For example, quality, customization and product innovation are of vital importance to a premium car such as Mercedes while standardization, quality and low cost/price are vital to a budget car such as Maruti 800. In both cases, IT should strongly support these business processes and constantly provide the management with appropriate information.

Steps in Designing IT Architecture and Infrastructure

In practice the realization of strategy, architecture and infrastructure is an interactive process . The development of an IT architecture starts with the business strategy. The business strategy will determine the “business architecture” – the organization structure and the organization processes and the business architecture in turn will determine the “IT architecture” and “IT infrastructure.

Business Vision

The business strategy should be precise and unambiguous for proper design and implementation of IT architecture. A good strategy starts with a clear business vision and it clearly spells out the direction the company is expected to follow in the years to come. A good business vision should be “inspiring enough to cause people to consider that it is worthwhile to give it their time and energy”. A business vision should be a challenge: not vague, but specifically focused on the organization. This is vital since it provides a framework for strategy formulation.

Business Objectives

A business objective can be defined as the choice of policy that the company wishes to pursue to realize the business vision. The choices may concern the well-known “Ps” of marketing, namely, product, price, promotion and place and also strategic factors such as competition, clients, suppliers and replacement products. For example, the business objectives may deal with policy alternatives such as, market share versus profitability; short-term versus long-term orientation or; growth versus consolidation. Though the objectives provide overall direction for the organizations, they still provide specific direction for IT architecture and infrastructure.

Business Processes and Operations

The business vision and the objectives by themselves do not sufficiently explain which aspects of the business should be reinforced, or what competencies the company should possess to perform well. Competencies can be of an economical, technological and an organizational nature, as well as of a social nature. By identifying the required competencies and establishing a set of performance measures, a firm can now translate the business vision into a number of concrete items of which it should be capable. The existing organization and IT will have to be modeled on this basis. Performance measures specify the capabilities, which should be developed. The design criteria are the essential attributes required for success on the basis of which the organization and the IT are modeled. Performance measures can be very simple statements such as; “An important client should have a contact point within the bank and, therefore, we should appoint a key account manager.” In practice this means a total transformation and it is quite natural that the senior management must guide such reorganization.

Business Architecture

Strategy has important organizational and technological consequences. Therefore, formulating a business strategy is insufficient to make the organization perform. The first step, after developing the business strategy is to, therefore, determine the business architecture required to operate business processes. The effects of the improved use of IT can only be expected when the company processes have also been effectively structured and when the responsibilities are well defined. This has consequences for the organization structure. In the business architecture, attention has to be, therefore, paid to the redesign of the organization and the way in which the organization should function in the future.

The business architecture is divided into three closely related blueprints. These three together constitute the business architecture:

Business Function Blueprint: This blueprint describes the dividing of company processes into responsibility fields and how they are put into practice (centralized-decentralized).

Data Access Blueprint: In order to implement the company positions, all information is necessary. That is why the information needs are described.

Application Access Blueprint: In order to approach the information, applications are necessary. In the application access blueprint the necessary applications are described.

IT Architecture

The distinction between business architecture and IT architecture is of major importance. In many organizations the architecture is mainly determined by technical and economical considerations. The organizational aspects are, therefore, mainly realized by means of the technical opportunities (technology push) and not on the basis of strategic and/or organizational considerations. Within the scope of the business needs, the business architecture offers the possibility to choose the best IT solutions. In this way, the IT architecture fulfils a "bridge" function between, on the one hand, business demands on information supply and, on the other, technological opportunities.

In the business architecture, the way in which the organization should function in the future is indicated, along with which information needs are important in this. The business architecture describes this in a more functional sense. The IT architecture translates the more functional description into technical solutions. The difference between business architecture and IT architecture is, in fact, comparable with the distinction between functional and technical design, which has been used by system development methodologies for years.

The business architecture is dominated by managerial and organizational questions (what). The answers to these questions are translated, in the IT architecture, into automation directions (how) and eventually in the choice of specific makes and types of technical means: the IT infrastructure (with what).

IT Infrastructure

The IT infrastructure is described as the setting-up and management of the whole hardware, software and data communication supply, in such a way that the business architecture and IT architecture can be implemented successfully. The IT infrastructure distinguishes itself from the IT architecture in that the concrete services and products are specified. At first it was sufficient to indicate that there was a need for mini-computers and workstations. In this phase it is determined which specific requirements the systems should meet, in terms of speed, distributed databases and the corresponding machines, local/long-distance communication opportunities, co-operative processing and user interfaces. Also, specific brands and types of products are determined.

Components of IT Infrastructure

The IT infrastructure is not only a matter of hardware, but also a complete integration of the information technology supply. Within this scope, the following components are recognized in the IT infrastructure:

IT Components: The components are formed by the various hardware components, consisting of computers, displays, personal computers, printers, data communication connections and disk units. The software for the steering of all these components is included. In the choice of hardware components other factors prevail, such as compatibility (to what extent can computer systems of different makes and models actually exchange data), data communication possibilities, speed of processing, the price/output-relation and the ease of operation.

IT Services: IT services are services, which execute specific assignments for applications. In the past, application programmers had to set up and develop their file organization on their own. Nowadays, the database management systems take over a large part of these activities. The same applies to the network management. The software involved takes care of the accurate operation and control of the data communication facilities and offers many facilities for management.

IT Control Instruments: The previous components, services and facilities cannot be put in, in a sufficiently effective and efficient way, if attention is not paid to control instruments as well. These instruments consist of: procedures, methods, techniques and tools for system development and the quality and experience of the automation personnel.

The IT infrastructure will function better if the products and services are connected and are in tune with each other. The company will profit more and more directly by this. The more one is capable of putting in the IT infrastructure, the better one can do in the primary business processes. The IT infrastructure should not only support the most obvious business processes, it is precisely the support of strategically important business processes, which can lead to the greatest success. Therefore, it is important to select the components and services in such a way that there is sufficient material for a fast and effective creation of new company facilities.

Factors in the IT Infrastructure

In developing the IT infrastructure, other factors play a role as well. These factors are, among other things:

User-friendliness: An example of user-friendliness is the requirement that for every use at every place of work, the same meaning should apply to function-tests. This can also go in the direction of graphic presentations of data, the use of a mouse and the use of pull-up and down menus for the entering of data coding. User-friendliness requires computer capacity and may have consequences for the filling-in of blueprints.

Cost Control: Cost control depends on the question as to whether intelligent terminals are being used, or not, at the workstation, on the installation of applications and the data storage at the workstation. The costs of hardware, communication and control should be weighed against each other.

Hardware Policy: If different computer suppliers are employed, it should be questioned whether it is sufficient to deal with just one specific supplier, because of the desired functionality and the choices made in the IT architecture. Products of different suppliers, however, cannot always be linked.

Safeguarding: When information becomes more and more valuable, it becomes necessary to describe the requirements for the logical and concrete access to, and the use of, applications.

All the factors mentioned influence the parts of the IT infrastructure, and these are decisive in the IT policy. To sum up, the importance of establishing the IT infrastructure is that the IT architecture is defined, in a concrete sense, in the shape of:

- **Descriptions of the necessary computer systems:** From mainframes to personal computers and workstations;

- **Descriptions of the local and central database management systems to be used:** Relational, distributed, data directory/dictionary;
- **Descriptions of the program packets to be used:** Word processing, electronic mail, spreadsheets, desk-top publishing;
- **Enquiry languages to be used:** CASE tools, object-oriented languages, executive applications, image systems, expert systems;
- Descriptions of telematic products and services, among which are also client server concepts, videotex systems, local/long-distance networks and voice mail systems, EDI message processors, direct dialing from the workstation.

The total end result of the IT infrastructure also indicates that the IT architecture is judged in terms of:

- Technological feasibility, where attention is paid to what might be feasible, in the short and in the long term;
- Complexity, e.g., which products and services exclude each other (possibly in the short term);
- Controllability, e.g., knowledge and experience of the employees;
- Economic feasibility e.g., cost of acquisition and development and the operating costs.

Activity 1

Name any five companies, which have recently adopted technology as a part of the company’s strategy.

a) ....

b) ....

c) ....

d) ....

e) ....

10.3 USE OF IT IN STRATEGY IMPLEMENTATION

Competitive Strategy and IT

Competitive strategy is an organization’s approach to achieving sustainable competitive advantage over, or reducing the competitive advantage of, its competitors. Porter (1980; 1985) suggests that the success of organizations depends on how well they cope with and manage the five key “forces”, namely, the bargaining power of suppliers; the bargaining power of buyer; the threat of new entrants; the threat of substitute products; and rivalry among existing firms, which shape an industry.

Successful organizations both react to, and influence, the five forces and by doing so, influence the nature and shape of their own industry - to their own advantage, naturally in promoting growth. To fuel this growth, there are two basic commercial strategies that organizations can adopt: product differentiation (directly related to a number of the options above); and low cost/price. These two basic strategies rely for their success on a whole platform of “second order” strategies concerned with, for example, product range and distribution. They are: cost leadership; differentiation; cost focus; and focused differentiation.

Strategic cost measures which result in cost leadership are aimed at:

- Reducing the total costs of the organization by reducing or avoiding specific costs;
- Working with suppliers, distribution channels, or customers to reduce or avoid some of their costs so that the organization establishes a "preferential partnership"; or
- Increasing the cost-profiles of competitors.

If these are the activities, resulting in strategic advantage, they must be supported by appropriate technology and IT. All activities, which form part of "differentiation strategy" and which is a variant of the competitive strategy should be supported by appropriate IT. Traditional data processing relates to accounting, order processing and other administrative responsibilities. Things are now starting to change - partly as a result of changes in technology and partly because senior managers are beginning to understand the nature of their businesses and the importance of a few core processes and key tasks. Thus IT is being aimed at the frontline, customer- oriented processes and activities relating to the production, marketing, delivery, and servicing of the product.

The Value Chain and IT

All components of the value chain are interrelated. When addressing IT, it should be designed to cut across the functional boundaries and integrate the various elements of the chain. This should lead to both cheaper systems and, much more importantly, higher quality, more strategic information through improved linkages in the chain. IT can be used to redesign and reconfigure the system by reordering, regrouping, and restructuring the activities within the value chain.

Value Systems and IT

This value chain of an individual organization, which is competing in a particular industry, is embedded in a larger stream of activities that Porter terms it "value system". This relates to the external relationships with suppliers at one end, distributors at the other and competitors in the middle. Again, competitive advantage stems from an ability to manage these relationships more effectively than competitors. Certainly, in these days of extensive – if not ubiquitous and total - networking, interoperability of systems is vital. This extends outside of the organization so that it is certainly preferable for suppliers to share common EDI systems – and even data structures - to facilitate simpler data interchange with them. Again, this can lead to co-operative purchasing and economies of scale. It may even extend to risk management and disaster recovery agreements between organizations with similar standards and similar-sized technical installations.

For many organizations – especially small and medium-sized enterprises (SMEs) – competitors may be a source of assistance. In many industries, co-operation with competitors is very common – through trade organizations, for example. Sometimes, small organizations have to group together in alliances to compete against a dominant large player. This cooperation may include a shared approach to, or at least experience exchange in relation to, IT.

Cooperation among organizations in relation to IT usually takes the form of (a) vertical integration, (b) outsourcing, and (c) quasi-diversification, whereby organizations cooperate across markets or across industries in order to better exploit their key resources. Adopting parallel or compatible IT means that relationships with other organizations that were previously not possible due to high coordination costs or high transaction risk may become feasible.

Occasionally, there is very wide co-operation on IT within a sector or industry. This normally relates to infrastructure components such as networking and messaging but can apply to transaction-based IT. Such co-operation may be to the benefit of all if it produces lower costs or better quality service. EDI is an example of a shared technology - offering economy of information. Few firms have investigated the issue of shared IT - though the use of packaged software is obviously a form of this. All the strategies discussed above require the organization to change. IT can be a supportive facilitator of change - extending and enhancing organization choice and improving the quality of decision making.

Activity 2

Give one example each of cost leadership:

....

Differentiation:

....

Cost focus:

....

Focussed differentiation:

....

10.4 IT FOR INNOVATION AND PERFORMANCE

Businesses are increasingly finding themselves in business environments facing rapid increases in both turbulence and complexity, leading to enhanced uncertainty and increased competition, which in its most extreme form, is termed as hyper-competition (D’Aveni, 1994). This has also led to an increased focus on innovation as a means of creating and maintaining sustainable competitive advantages (Nonaka and Takeuchi, 1995). In the wake of this development, efficiency and rapid access to knowledge and information (Barton, 1995; Grant, 1996) is becoming paramount. Consequently, spending on information technology (IT) has surged during the last two decades.

One type of benefit that managers attribute to IT is speed and responsiveness (Brynjolfsson, 1993). Speed is important in the development of successful innovations (Kessler and Chakrabarti, 1996). There is a positive relationship between using IT to increase effectiveness and the successful implementation of innovations. Grant (1996a; 1996b) focuses on knowledge integration within companies as important for creating sustainable competitive advantages. Huber (1990) further argued that the use of IT leads to more available and more quickly retrieved information. The importance of knowledge integration and availability of information may be linked to the positive relationship between using IT to improve internal communication and successful innovations, facilitating a higher degree of coordination and integration of activities. Also, by using IT, it is likely that the speed of the processes increases, leading to lower costs of development and providing an earlier introduction to the market (Kessler and Chakrabarti, 1996), which in turn will have a positive effect on the successful implementation of innovations. Use of IT can also lead to new ways of managing the company and enhancing productivity. This can be explained by the fact that IT has an inherent potential in terms of improving coordination of cost reducing activities in the company and thus raising cost efficiency.

Customer Satisfaction

Berkley and Gupta (1994) found a positive relation between the use of IT to improve service quality and customer satisfaction. This was also found by and pointed out as being of significant importance for many firms by Quinn (1996). The positive link between the use of IT to ease the work and customer satisfaction may be attributed to the inherent time saving, which could be transformed into more attention directed towards the customers, thus increasing customer focus and in turn customer satisfaction. The positive relation between the use of IT and lower costs, and customer satisfaction may be caused by customers benefiting from cost reductions in the way of price reductions, which will lead to increased customer satisfaction.

10.5 E-BUSINESS

The use of the term e-business implies that it is distinct from business *per se*. There have been arguments proposed that would suggest that the underpinnings of e-business are of such significance that it can be regarded as discontinuously different. If this is so, then it could be argued that a new business paradigm has emerged. The recent reversal of fortunes of the dot.com businesses has graphically emphasized the fact that they, and e-business, operate within the same business environment and context as conventional bricks and mortar businesses (Porter, 2001). However, fundamental to this is the technology that has enabled the e-business phenomenon to take place.

Web-based Business Models

The rapid expansion of the worldwide web and e-Commerce has created a number of new business paradigms. The array of business relationships which have emerged in recent times include:

- Business-to-Business (B2B)
- Business-to-Consumer (B2C)
- E- Market Places

The business-to-business space includes the various upstream and downstream transactions that enhance channel coordination and customer relationships. In B2B, commerce, business partners and customers are connected via the Internet to participate in commercial trading and participate in communications and interaction. JC Penny, for example, shares packing, shipping, inventory and product movement with suppliers. In B2C, business are connected to their customers through the net and the various activities in the B2C space include, product ordering, sharing product information, creating display space, providing customer information, co-developing products and customer service. An example of B2C commerce is the product-tracking information offered by Federal Express to the customers through its B2C activities. E-Market Place involves linking the company, its partners and its customers via the Web to provide opportunities for developing communication and interactions, including customer surveys and information exchange on such things as product warranty and service capabilities. Figure 10.1 explains the web-based models and their interrelationship.

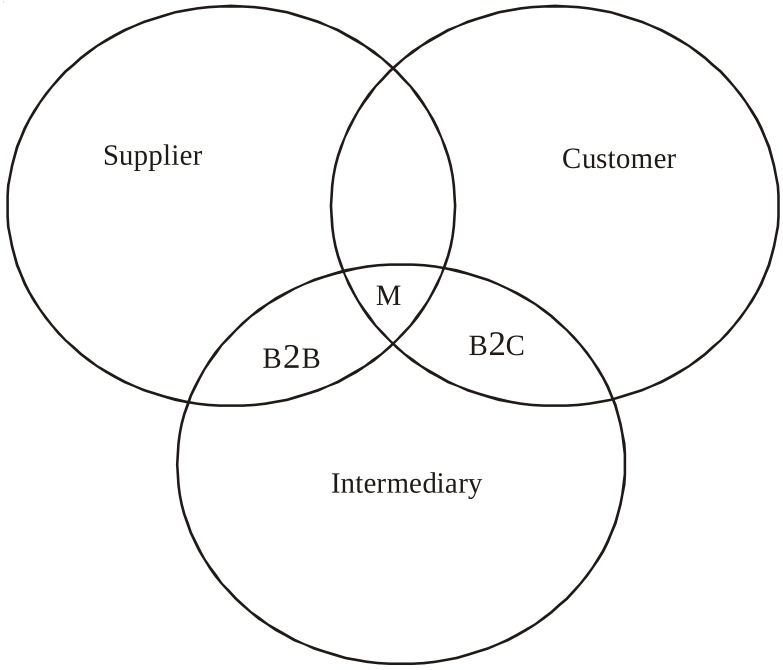

Figure 10.1: Web-based Business Models

In the context of e-business the business to consumer sector (B2C) can be considered as secondary to the potential within the business-to-business (B2B) sector. For example, one of the largest supermarket businesses in Europe, Tesco, also has the largest B2C e-business in Europe and one of the few profitable ones. However, despite this the revenue from this business is only approximately £300 million, from a total turnover of £23 billion.

The opportunity to link B2B network members and co-ordinate their activities by the quicker and more effective transmission of information relating to stock, order administration etc. has considerable potential for cost saving and service improvement. The often-quoted example of Wal-Mart and Procter & Gamble suggests that early and more immediate benefit can be gained by working through and interconnecting the supply chain (Christopher, 1998). Again, Tesco offers a further example with their leadership in this context using TIES (Tesco Information Exchange System) to link with their suppliers. The company also leads a forum of retailers with the aim of standardizing systems used by retailers and their suppliers.

Impact of e-Business on Organizations

The diffusion of Internet-based information systems throughout the workplace is changing the manner in which the firms work and the way they interact with their customers and suppliers. According to McKenna (1997), technology is transforming business environment in profound ways. Almost all technology today is focused on compressing to zero the time it takes to acquire and use information, to learn, to make decisions, to initiate action, to deploy resources, to innovate. When action and response are simultaneous, the firms are said to operate in real time.

This shift in time-demands and resulting competitive pressures are changing organizational structures: Increasing competition, information that could be outdated in the next hour and customers demanding immediate responses to product and service requests (customized to their needs) mean a major adjustment in company structure. To meet the challenges effectively, many companies have adopted reorganization strategies that include downsizing, restructuring, re-engineering, outsourcing, and merging or spinning off companies.

The transition of operations in many businesses to real time operation has begun to churn up huge creative chaos inside corporations (McKenna, 1997). The Twenty-first century Corporation must adapt itself to management via the Web. It must be predicted on constant change, not stability, organized networks, not rigid hierarchies, built on shifting partnerships and alliances, not self-sufficiency. Internet-based technologies are creating information overloads where “a major task of practitioners is to help mobilize those frozen by the overload of information”. Web-based information systems are also causing profound organizational changes. It seems logical to assert that Internet-based information systems have created profound changes throughout organizations. Researchers have begun to document the impact of these changes. One common thread appears to be that applications should be Web-based in their design, and that they support distributed collaboration and decision-making.

Organizational Change

In most organizations, few people possess all the information required to make optimal decisions. By taking advantage of Web-based information systems, associates can access information from many sources at any time and from any place. This has created more team-based decisions and new organizational structures. Thus, the inference is that Web-based information systems can lead to organizational changes by facilitating organizations that are more organic in structure and can adapt more easily to share information in a timely and coordinated fashion. Web-based technologies have similarly created performance improvements in organizations by changing roles and patterns of communication. Electronic networks open up new possibilities for reducing barriers to communication and sharing organizational knowledge and electronic collaboration tools can tap into expert knowledge and resources throughout an organization where productivity, flexibility, and collaboration will reach new, unprecedented levels. Success in increasingly competitive marketplaces will depend on effective communications and knowledge sharing among members using collaborative electronic networks.

Time

In terms of the impact of web-based information systems on time, Byrne asserts, “Employees will increasingly feel the pressure to get breakthrough ideas to market first”. He further contends, “that rapid flow of information will permeate the organization. Orders will be fulfilled electronically without a single phone call or piece of paper. The `virtual financial close’ will put real-time sales and profit figures at every manager’s fingertips via the click of a wireless phone or a spoken command to a computer”. He further contends, “It is about speed. All this work will be done in an instant”. “The Internet is a tool, and the biggest impact of that tool is speed”, says Andrew S. Grove, chairman of Intel.

The speed of actions, the speed of deliberations, and the speed of information have increased, and it will continue to increase. That means the old, process-oriented corporation must radically revamp. With everything from product cycles to employee turnover on fast-forward, there is simply not enough time for deliberation or bureaucracy. While this sounds like a positive impact, the shrinking time demands may cause increased problems in other areas, for example, employee stress.

Web-based information systems will have a profound impact on the organization and its structure. Organizational chart of large-scale enterprise had long been defined as a pyramid of ever-shrinking layers leading to an omnipotent CEO at its apex. The twenty-first century corporation, in contrast, is far more likely to look like a web: a flat, intricately woven form that links partners, employees, external contractors, suppliers, and customers in various collaborations. The players will grow more and more interdependent. Fewer companies will try to master all the disciplines necessary to produce and market their goods but will instead outsource skills - from research and development to manufacturing - to outsiders who can perform those functions with greater efficiency.

Therefore, as web-based information technologies diffuse throughout organizations, there may be profound impacts on organizational changes, including the general flattening of organizational structures and the need to develop middle management teams that operate effectively within this new environment. Web-based electronic networks have been shown to have both positive and negative consequences. Anticipated, desirable consequences have included timely savings, improved productivity, and improved decision making via increased access to timely information. Innovation and creativity were also shown to improve when workers could share ideas and knowledge. On the other hand, researchers have demonstrated that Web-based information systems can also have a negative impact on workers. People feel pressurised by the real-time demands created by the non-stop presence of the Internet. They also sense loss of communication and relationships created by virtual communities and meetings, relationships based on physical and face-to-face meetings and conversations.

Identifying e-business Application Areas

When examining the company for the possible application of e-business, one can focus either on internal processes and systems or on the externally oriented processes. If the main focus is to reduce costs or prepare systems for future e-business applications, the internal perspective might fit best. If the aim is to improve the customer’s perceived value, one can best investigate the company’s buying and selling processes.

Internal e-business Value Chain

Taking the value chain (Porter and Millar, 1985) and placing e-business technologies into the framework gives an insight into the reach of these technologies into the value activities. The exact meaning of all prevalent “e” applications is less relevant as new applications arise every day and definitions vary widely. Linkages already exist between activities; some of these linkages have been integrated by using e-business technologies, ultimately providing a fully integrated e-business process. It is important to realize that these new applications have to be integrated with supporting and, if applicable, primary processes to prevent creating islands of automation.

The physical processes might have to be rearranged to better align the original value chain to the new e-business oriented value chain. Integration of the physical processes and e-business applications is essential to achieve maximum results. It is said, “a business is profitable if the value it creates exceeds the cost of performing the value activities” (Porter and Millar, 1985). Analyzing the e-business value chain can help in lowering the costs and increasing the value of activities. It has to be kept in mind that the supporting processes should be prepared for future e-business developments before embarking into large-scale “e” systems.

Taking the Web marketplace as an example, one can see that, if a marketplace requires sound estimates for the delivery time of a product, e-fulfillment systems have to be in place and the factory floor automation has to be capable of providing this information. Supporting processes are not only the technical infrastructure, but also the databases holding all information and people capable of working with the systems.

Formulating an e-business Plan

Having identified the portfolio of specific e-business applications that need to be developed from a strategic perspective, these applications have to be brought into line with the existing IT architectures. Commonly identified IT architectures encompass the following:

- Information Architecture;
- Systems Architecture;
- IT Infrastructure; and
- Organizational Architecture.

As a first step, the impact of the identified e-business applications on the information architecture has to be assessed. The e-business applications can be integrated into the information architecture, taking the customary view of information architecture as the description of information systems areas in terms of the business processes they support and the data they use. Three possible situations can occur at this architectural level:

1) A e-business application fits well within one information systems area. This means that the original information architecture is still valid.

2) A e-business application covers two or more information systems areas. A decision needs to be made whether to merge the affected areas or to rearrange them in such a way that the e-business application falls into one new information systems area, together with possibly existing or projected other applications. The relationships between information systems areas have to be redefined in order to arrive at consistent information architecture for the new situation.

3) A e-business application does not fit in any information systems area. A new information systems area has to be defined in terms of the business processes supported and data items created and used by the e-business application. Careful analysis of possible relationships with other information systems areas within the information architecture is needed.

A similar process has to be followed through for the systems architecture. Specific attention has to be given to the stewardship of the data items (who controls the creation of data, which mechanisms have to be in place to control any occurring redundancy?) and the integration of applications (how can we provide a consistent interface to the users?). The consequences for the IT architecture might be more severe, as e-business applications often call for substantially higher degrees of scalability and security. Accordingly, the required capacities and skills for the supporting organizational architecture may be very different from existing ones, which often gives rise to a renewed outsourcing discussion.

Through assessing the impact of e-business applications on existing architectures, several consequences are identified. Plans have to be made to properly incorporate these consequences within the IT architectures, describing what changes are needed to existing information systems, infrastructure, new developments or organizational layout. These consequences give rise to projects within the overall IT project portfolio of the organization. As a result, the project portfolio is populated with both e-business application projects and projects that need to be carried out in order to properly integrate the e-business applications with the business structures and IT architectures of the organization. Standard project portfolio management techniques can be employed to render a specific e-business plan for the organization.

10.6 IT IN SERVICE SECTOR

Past investments in service sector information technology have been aimed primarily at productivity or efficiency gains, and this is the measure that most firms use to gauge the benefits. Service firms have followed the lead of manufacturers in making great strides in getting work done with fewer employees mainly because of advances in technology. Competitive pressure is making service companies eliminate costs (mostly people) and new easy-to-use software is allowing the full application of computer power. On the other hand, little attention has been given to using information technology to improve customer service and long-run business effectiveness. Perhaps this is because the benefits of improved service are often qualitative rather than quantitative. Standard accounting systems can measure labour costs, but not the costs of poor customer service. Consequently, managers must justify new investments in information technology on the basis of efficiency gains and labour savings (Berkley and Gupta, 1994).

Input Information

The input function in services includes forecasting customer demands so that necessary service capacities can be planned. Once customers arrive, expected services must be specified by questioning customers or by relying on service histories or observations of market trends.

Most service firms have rush or peak periods and are not able to provide quality service unless they plan and prepare for these times. Unlike manufacturers, service firms cannot maintain inventory of their products as a hedge against fluctuations in demand. At any given time a service may have excess demand or excess capacity and service quality can suffer in both cases. When demand exceeds capacity some potential customers may be disappointed because they are turned away. There is also a risk that the accepted customers may receive inferior service. For many customers, even if it is good service, it is no good when it is late or slow. Armed with the proper information, service firms may be able to adjust capacity to match fluctuating demand levels. When peaks in demand are predictable, forecasting and capacity management systems can be used to construct detailed staff schedules that match capacities to demand.

In services, information must be secured from the buyer to specify the expected service. This is important because the more complete the information, the easier it will be to perform the other process functions. Customers also need to be made aware of the various services available and the likely costs of each alternative. Such information ensures that the needs and expectations of the customer are fulfilled and the organization’s time and resources are not wasted in dealing with customers whose needs and expectations it cannot, or should not, fulfill.

Service errors are often caused by a misspecification of the service. For example, Federal Express found that wrong ZIP codes, wrong street addresses and even wrong names cause most of its routine mistakes. Often, a package misadventure begins when a clerk misreads a customer’s handwriting. To improve service specification, Federal Express has introduced new self-serve kiosks, called FedEx Online, using bank automatic teller machine (ATM) technology. Each kiosk has a touch-screen video display for customers to price packages and print their own address labels (Ramirez, 1993). Major ocean shipping companies now use a Windows-based electronic data interchange software package called *Ocean* for customers to book and confirm their own orders. Ocean is expected to reduce data errors because the information keyed in by customers is fed directly into the carriers’ systems (Radosevich, 1993a).

Service requires a long memory. With a computerized customer database, a firm can attach a detailed personal service history to the names of its customers. A record of each new service transaction can then be added to existing customer files. These updates help sketch an increasingly detailed profile of each customer's preference and expectation and create opportunities for more personalized and enhanced service. For example, Marriott's guest recognition system allows personnel to call up information about guests who have stayed at a Marriott hotel before. Marriott's system can predict that a particular guest will want a non-smoking room, a king-sized bed, an iron and a hair dryer. Customer service histories that are easily accessible allow frontline service providers to know on the spot which customers are first-time clients and which are loyal repeat customers. Such information allows service staff to acknowledge and personally reward the valued repeat customer and to solicit feedback and other important information from new customers.

Customer files enhance service consistency and server competence. Customer service records also ensure that service is personalized and consistent for repeat customers, even after their regular service-delivery person moves on to another job. The Nordstrom department store chain depends on its sales associates to provide individualized service to its loyal customers. Currently, individual customer preferences are resident only in the memory of a sales associate and the firm is working to convert this personal memory to corporate memory. An information system that allows customer files to be called up at many different locations would allow the firm to direct customers to different company stores providing individual sales or services of special customer interest. This in turn will help build a customer-company relationship that is stronger and more valuable than a simple customer-store or customer-employee relationship. Customer service histories can speed service. In the medical field, computerized patient records speed service, cut costs and save lives. For example, computerized systems can warn physicians of potential problems such as allergic reactions or duplicated tests.

Customer service expectations are a moving target. To deliver superior service, a company must monitor customer expectations and customer response to the services it offers. While market research can be used to determine customer expectations, often the required information can be obtained at a significantly lower cost by listening to customers and employees. Most of the good service providers have a communication process to ensure that customer suggestions and requests are communicated up and down the organization to the people who need this information.

Although customers are the best source of information, they will rarely volunteer the necessary information. In industries characterized by large numbers of relatively small transactions, such as financial services and retailing, computerized point-of-sale and bar-code scanning devices can now record every customer service encounter. For example, in supermarkets, scanners speed checkout and provide customers with detailed receipts. Moreover, scanner systems provide management with continuous inventory updates and a detailed analysis of performance by product, by department and by store. The intended result is fewer inventory stock outs of popular items and improved customer satisfaction.

Knowledge

Service providers must possess the required skills and knowledge to perform service. Greater knowledge allows frontline service workers the better to help their customers and makes them capable of important judgements on matters that previously would have been handled by managers. Because employees can experience intense frustration when facing a customer and not having the answers, knowledge also supports employee job satisfaction, motivation and confidence in dealing with customers.

Knowledge databases allow relatively inexperienced people to perform very sophisticated tasks quickly. Whereas service providers, unaided by databases, are limited to their own knowledge, those with access to fast-response decision-support systems effectively possess the knowledge of many. This is particularly important when service firms rely on entry-level, part-time or relatively inexperienced workers. Information systems can also be used to reduce the knowledge required to deliver customized services and to improve service consistency. If the most relevant customizing variables can be specified and programmed in advance, the firm becomes less dependent on frontline personnel to perform the customizing tasks. For example, employment agencies try to identify job openings offering the desired salary, location, type of work and level of responsibility. Computer programmes can be written to search the job-opening files and automatically generate a list of feasible matches. Not only is the market knowledge institutionalized, but also much of the necessary expertise.

Quality in services depends heavily on the ability of employees to share their knowledge. Service expertise can be captured in either expert systems or group conferencing systems that provide electronic bulletin boards for sharing problems and ideas. Many professional service firms now find the core of their distinctive competence to lie in the accumulated knowledge in their databases and the capacity of their members to access and build solutions on these databases. For example, American Home Shield, a company providing service contracts for electrical, plumbing and heating systems in individual homes, has used the database it constructed to improve its service and learn as much as anyone about the performance patterns of equipment supplied by major manufacturers (Heskett, 1986). A number of software companies maintain textual databases of reported software problems and solutions. As solutions to particular problems are found, they are added to the database and become widely available to the technical support staff that takes calls from users. By recording problems and solutions centrally, these databases give leverage to the learning of each technical support person.

Job Status

The longer it takes for service delivery to be completed, the more likely it is that customers will require information on work-in-progress (such as estimated completion times and projected costs). For example, Federal Express uses package barcodes that are scanned six times during the shipping process to maintain real-time records on package location. Recognizing customer concerns about whether the package actually arrived on time, there is a money-back guarantee if a package cannot be located within 30 minutes of a customer call. Many firms have developed customer information systems that allow customers direct access to production and shipping files. These systems reduce customer uncertainty and allow customers to measure firm performance. Frequent airline passengers expect occasional delays. What upsets these passengers is the lack of explanation and apology for delays. To be more responsive, Northwest Airlines passes information from its flight monitoring system to co-coordinators located in each airport who make sure passengers know the reasons for delay.

Quality Control

Quality control consists of collecting data, monitoring (comparing the existing state with the service standard) and corrective action. The objective is to make corrections to the process before problems are created and customers complain. Many service problems can be identified before customers experience them. Consider patients who arrive at their doctor’s office on time only to be told the doctor is running an hour late, or airline passengers who, on arrival at the airport, are informed that their flight was cancelled hours earlier. In situations like these, management could anticipate customer frustration and take steps to alleviate it, including calling customers to warn them of the problem.

Quality control begins with data collection to determine the current state of the process. This information is then compared to the service standard to determine if corrective action is required. When service standards are subjective (e.g., courteous service) or when the data are qualitative (e.g., employee behaviour, customer treatment, customer reaction), qualitative data are ordinarily collected by direct management observation. On the other hand, objective performance data, such as customer waiting and service times or system response times, can be collected and processed by information systems.

Complaints Management

Customer complaints provide valuable information regarding service quality problems. A problem resolution situation should be viewed as an opportunity to learn how to improve service. The greatest risk is that customers will not bother to complain, but will simply generate negative word-of-mouth advertising and take their business elsewhere. Service firms should welcome complaints and make it easy for customers to complain. For example, British Airways has installed what it calls Video Point booths at Heathrow Airport in London so travellers can videotape their reactions on arrival. Customer service representatives then view the tapes and respond.

The closer to the point of service delivery a complaint is made, the better is the service recovery. Experience in many companies indicates that it takes longer to handle an escalated complaint at the head office than it does at the point of service. Once a complaint is lodged, fast response is the key. Customers should not have to wait weeks to get an answer or to get a problem resolved. At Coca-Cola complaints are logged into a complaint handling system and shared with all departments for analysis of likely causes and appropriate corrective action. As soon as the investigation is complete and an effective corrective action has been found, the customer receives a complete report of the root cause and the actions taken, usually within 48 hours.

Successful service firms track complaints by type (e.g. poor employee attitude, slow service), by frequency and by department. This is done because many service problems are not so obvious and, without adequate tracking systems, often go undetected. Some service companies also use complainant satisfaction tracking systems to measure the success of their complaint handling systems. These systems generally send customers who have complained a postage-paid reply card for evaluating the way their complaints were handled. Customer replies can then be tabulated by individual customer service representative, by location or by teams of complaint handling personnel.

Customer feedback is not always bad. Service firms also receive compliments. Customer compliments provide an opportunity to increase employee motivation and improve service quality. Unfortunately, many companies do not have an organized system for routeing compliments back to employees. This is particularly true for geographically widespread organizations where a compliment might be received in Singapore about service delivered in Paris. Verbal compliments should be recorded (the format is not important) and, with written comments, passed on to all employees who contributed to the service complimented and to their immediate supervisors. Typically, the effort and money spent on using compliments to motivate and encourage superior performance are returned many times over.

Service Recovery

The best service is preventive rather than reactive. But, despite one's best efforts, mistakes are a crucial part of every service. The fact is, in services – often those delivered in the customer's presence - errors are inevitable. But dissatisfied customers are not. A good service recovery can turn angry, frustrated customers into loyal customers. Good recoveries can, in fact, create more goodwill than if things had gone smoothly in the first place.

Service failures are best resolved when and where they happen, before they become costly to resolve and before they create lost revenue. To resolve problems when they occur, frontline personnel must be trained and encouraged to use their judgment. Employees need enough data to solve problems and make decisions while the customer is still present. In many cases (such as billing problems), recovery efforts require customer account histories and data from several company departments. If problems are to be solved on the customer's first call, this information must be readily available to customer service personnel. For example, image processing of credit card slips at American Express allows customer service representatives to find image records of customer transactions in seconds.

Nothing could be worse than saving a customer only to have the same mistakes repeated because other employees who needed to know were not informed. To prevent problems recurring, and to prevent weak recovery efforts that fail the customer twice, some firms use recovery-tracking systems that capture information pertaining to each instance of recovery service. This information is available so that all employees who deal with a particular customer will know what occurred, what recovery methods were used and what commitments were made. For instance, if a restaurant *maître d'hôtel* seats a patron with a reservation very late and promises a free dessert, the waiting-on staff should not later add this dessert to the customer's bill. To ensure accurate data, customer service representatives should be able to input information directly into the recovery tracking system. Direct access also facilitates retrieval of information helpful to recovery efforts.

Customer Defections

Measuring service quality objectively through conformance to standards and subjectively through customer surveys is not enough. These techniques miss former customers who have left over the company's handling of an irregular situation. Identifying defecting or lost customers and measuring defection rates can provide a way to measure and improve service quality. The idea is to identify those customers who stopped doing business with the firm, then find out why. Defections can then direct managers' attention to the specific things that are driving customers away.

To measure defections one must have a defections scanning system to identify customers who have ended their relationship with the firm. If service or billing histories of customers are available, scanning the dates of last account activity easily identifies defections. Alternatively, many service firms, such as airlines, hotels, restaurants, rental car agencies, retail stores and even grocery stores, now have membership programmes and customer databases.

Often, customers are given a membership card that entitles them to discounts, and all subsequent purchases are logged against the card number. These databases then provide service managers with an easy way to identify inactive customers and, often, clues as to why customers are no longer buying.

10.7 SUMMARY

The rapid growth of technological innovations and the synthesis of information technology and computer networks are radically changing the way companies compete. Many business enterprises are making strategic commitments to technology for the purpose of gaining and sustaining competitive advantage in their industry. The creation of a competitive advantage through the use of information technology (IT) requires business executives to control this vital corporate resource and manage its use.

Organizations seek to gain competitive advantage in their selected markets via a number of competitive approaches - based primarily on product, service, differentiation and pricing policies. To understand the environment and customer behaviour they need robust, reliable information. In order to deliver to their chosen strategy, they must configure the organization (including extended configuration within the industry sector through alliances and collaborative ventures) and the various functional processes to deliver reliably and efficiently. Information Systems (IS) is used to configure the organization appropriately and to ensure communication between the various components. IS is then used to ensure effective communication within the extended value chain involving suppliers and the distribution network. Organizations hoping to make strategic use of IS must understand the nature of the inter-relationships of the above elements, and understand the nature of the information flows between them. IS activity and expenditure should be prioritized where it is clear that strategic information will result or where the activity is not effective without an underpinning IS.

Organizations, which are at the beginning of the use of IT often, focus on efficiency. They can do without a formal information planning method. The periodic drawing up of priorities and action plans per system is often sufficient. In this organization, IT is often placed in the existing procedure, without great changes in assignments or in the organization structure. In a later stage, automation is applied to solve bottlenecks, in the information supply and to improve effectiveness. For this purpose, it is necessary to chart the company processes and the information needs. The (often functionally designed) process structure of the organization usually remains intact. Most of the well-known information planning methods are extremely suitable for this type of information planning.

Increasingly more organizations, because of their complexity and the complexity and competitiveness of the market, are compelled to function in a more client-oriented way. In this case, information supply without bottlenecks is a necessary, but not a sufficient condition. It is even more important to choose the right strategy, process structure and responsibility, and in association with these, the right set of applications and the right infrastructure. These organizations discover that the functional organization structure involves obstacles and that information planning should not merely involve the establishing of priorities for individual system development projects.

In high customer-contact services, a firm’s ability to deliver quality service depends on its capacity to collect, process and distribute information. The input function in services includes assessing customer expectations, specifying the expected service and setting corresponding service standards. Good service providers have communication processes to facilitate the collection of customer data, suggestions, requests and transactions into customer databases. These databases can then be used to construct detailed customer profiles, eliminate service-specification errors, speed service and improve service consistency. Output information is used to determine whether customer expectations are met. While customers are the best judges of quality, many service firms lack adequate systems for collecting and acting on customer data.

Customer complaints provide valuable information on service quality problems. If customers complain, employees need enough information to solve problems and make decisions while the customer is still present. Complaints should be tracked by type, frequency and department to identify recurring problems that otherwise might go undetected. To prevent weak recovery efforts that fail the customer twice, some firms use recovery-tracking systems to capture and distribute information pertaining to each instance of recovery service.

10.8 SELF ASSESSMENT QUESTIONS

1) Explain the role of Information Technology (IT) in strategy implementation. How can IT assist in enhancing the competitiveness of a firm?

2) What are the various components of IT architecture? What factors influence the choice of a particular IT infrastructure?

3) What is e-business? Briefly explain the various web-based business? Explain the steps involved in implementing an e-business plan?

4) How does IT improve innovative capacity and performance of a firm? Illustrate this with an example by scanning various sources of information such as web, journals, business dailies, etc.

5) IT is being extensively used by various service organizations to improve service delivery. Choose any service organization and explain how IT has enhanced the quality of service of this firm.

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Corporate Social Responsibility

5

UNIT 14 STRATEGY AND SOCIAL RESPONSIBILITY

Objectives

After reading this unit you should be able to:

- explain the meaning of Corporate Social Responsibility (CSR);
- define and understand the scope of CSR for business;
- explain CSR and its importance for business;
- differentiate the philanthropic and the business integrated views of CSR;
- know CSR and companies in India; and
- explain measurement of CSR

Structure

14.1 Introduction

14.2 CSR and Historical Developments

14.3 Business Importance of CSR

14.4 CSR and Companies in India

14.5 The Measurement of CSR

14.6 Future of CSR

14.7 Summary

14.8 Self Assessment Questions

14.9 Further Readings

14.1 INTRODUCTION

Corporate social responsibility (CSR) is an evolving concept which is yet to command a standard definition or a fully recognized set of criterion. With the given understanding that businesses have a key role of job and wealth creation in society, CSR is generally understood to be the way an organization achieves a balance between economic, environmental, and social imperatives while they address the expectations of the shareholders and the stakeholders. While businesses try to comply with laws and regulations on social, environmental and economic objectives set by the legislations and legal institutions, CSR is often understood as involving the private sector commitments and activities those extend beyond this foundation of compliance with laws. In fact the key feature of the concept is the way businesses engage or involve the shareholders, employees, customers, suppliers, governments, non-governmental organizations, international organizations, and others into the organization.

CSR is generally seen as the business contribution to sustainable development which has been defined as “development that meets the present needs without compromising the ability of future generations to meet their own needs”, and is generally understood as focusing on how to achieve the integration of economic, environmental, and social imperatives. CSR also overlaps and often is synonymous with many features of other related concepts such as corporate sustainability, corporate accountability, corporate responsibility, corporate citizenship, corporate stewardship, etc.

Today it is generally accepted that business firms have social responsibilities that extend well beyond what in the past was commonly referred to simply as the ‘business economic function’. In earlier times managers in most cases had only to concern themselves with the economic results of their decisions. Today managers must also consider and weigh the legal, ethical, moral and social impact and repercussions of each of their decisions.

14.2 CSR AND HISTORICAL DEVELOPMENTS

Corporate Social responsibility has its roots of thinking in the twentieth century where the theologians and the religious thinkers suggested the application of religious principles to business activities. First was the principle of in which the wealthy and generous individuals contributed to the resources for aiding the unfortunate. The next was the stewardship principle, a biblical doctrine which requires business and wealthy individuals to see themselves as stewards or caretakers not just of shareholders but also of society’s resources for the benefit of the society as a whole. Similarly different authors see corporate social responsibility from different angles.

Although the topic rose to prominence in 1970s (Caroll, 1979; Wratick and Cochran, 1985), the first publication specifically on the field dates back to 1953, with Bowen’s ‘social responsibilities of the businessman’. In this work Bowen argues that industry has an obligation ‘to pursue those policies and to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society’ (Bowen, 1953), which means;

- That businesses exist at the pleasure of society and that their behaviour and methods of operation must fall within the guidelines set by society.
- Businesses act as moral agents within society.

Wood (1991) expanded these ideas encapsulating them into three driving principles of social responsibility , which are

- Business is a social institution and thus obliged to use its power responsibility;
- Businesses are responsible for the outcomes relating to their areas of involvement with society; and
- Individual managers are moral agents who are obliged to exercise discretion in their decision-making.

A growing number of scholars take the view that firms can no longer be seen purely as private institutions but as social institutions instead. The benefits flowing from firms need to be shared collectively. This thesis is similar to the stakeholders model and claims that a firm is not responsible only to its shareholders but to all stakeholders whose contribution is necessary for a firm’s success.

However Friedman differed from these and felt that the corporation is an economic institution and thus should specialize in the economic sphere alone and the socially responsible behaviour will be rectified by the market through profits.

Opinions differ in terms of the basis or scope of CSR and even the very definition of the term. As a consequence different aspects of a firm’s operations can be seen to come under its way. What can be conceived as ‘ social responsibility’ can range from simply maximization of profits to satisfaction of stakeholder’s social needs or fulfillment of social contractual obligations, achievement of a social equilibrium, etc. depending on the stance taken. World Business Council for Sustainable Development in its publication “Making Good Business Sense” by Lord Holme and Richard Watts define CSR as, “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

History

The view that a business can have obligations that extend beyond economic role is not new in many respects. Throughout recorded history the roles of organizations producing goods and services for the marketplace were frequently linked with and include political, social, and/or military roles. For example, throughout the early evolutionary stages of company development in England (where organizations such as the Hudson Bay Company and the East India Company received broad mandates), there was a public policy understanding that corporations were to help achieve societal objectives such as the exploration of colonial territory, setting up settlements, providing transportation services, developing bank and financial services, etc.

During the nineteenth century, the corporation as a business form of organization evolved rapidly in the US. It took on a commercial form that spelled out responsibilities of the board of directors and management to shareholders (i.e. fiduciary duty). In this later evolutionary form, public policy frequently addressed specific social domains such as health and safety for workers, consumer protection, labour practices, environmental protection, etc. Thus, corporations responded to social responsibilities because they were obligated to be in compliance with the law and public policy. They also responded voluntarily to market demands that reflected consumer morals and social tastes. By the mid-point of the twentieth century, corporate social responsibility was being discussed in the US by business management experts such as Peter Drucker and in business literatures CSR emerged and continues to be a key business management, marketing, and accounting concern in the US, Europe, Canada, and other nations.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies there made profits unhindered except by fulfilling their duty to pay taxes. Then they donated a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. The first generation of CSR this way showed how companies can be responsible in ways that do not detract from and may contribute to commercial success. Corporate philanthropy is the practice of companies of all sizes and sectors making charitable contributions to address a variety of social, economic and other issues as part of an overall corporate citizenship strategy.

The second generation is now developing where companies and whole industries see CSR as an integral part of the long term business strategy. Now a days lot of companies are taking it seriously for good of business. From a progressive business perspective, CSR usually involves focusing on new opportunities as a way to respond to inter-related economic, societal and environmental demands in the marketplace. Many firms believe that this focus provides a clear competitive advantage and stimulates corporate innovation.

In the last decade, CSR and related concepts such as corporate citizenship and corporate sustainability have expanded. This has perhaps occurred in response to new challenges such as those emanating from increased globalization on the agenda of business managers as well as for related stakeholder communities. It is now more a part of both the vocabulary and agenda of academics, professionals, non-governmental organizations, consumer groups, employees, suppliers, shareholders, and investors.

A third generation of CSR is needed in order to make a significant contribution to addressing poverty and environmental degradation. This will go beyond voluntary approaches by individual companies and will involve leadership companies and organizations influencing the market in which they operate and how it is regulated to re-mould whole markets towards sustainability.

14.3 BUSINESS IMPORTANCE OF CSR

Corporations are motivated to involve stakeholders in their decision-making and to address societal challenges because today's stakeholders are increasingly aware of the importance and impact of corporate decisions upon society and the environment. The stakeholders can reward or punish corporations. Corporations can be motivated to change their corporate behaviour in response to the business case which a CSR approach potentially promises. This includes: 1) stronger financial performance and profitability (e.g. through eco-efficiency), 2) improved accountability to and assessments from the investment community, 3) enhanced employee commitment, 4) decreased vulnerability through stronger relationships with communities, and 5) improved reputation and branding.

CSR is about how companies manage the business processes to produce an overall positive impact on society. Figure 14.1 may help you understand the above.

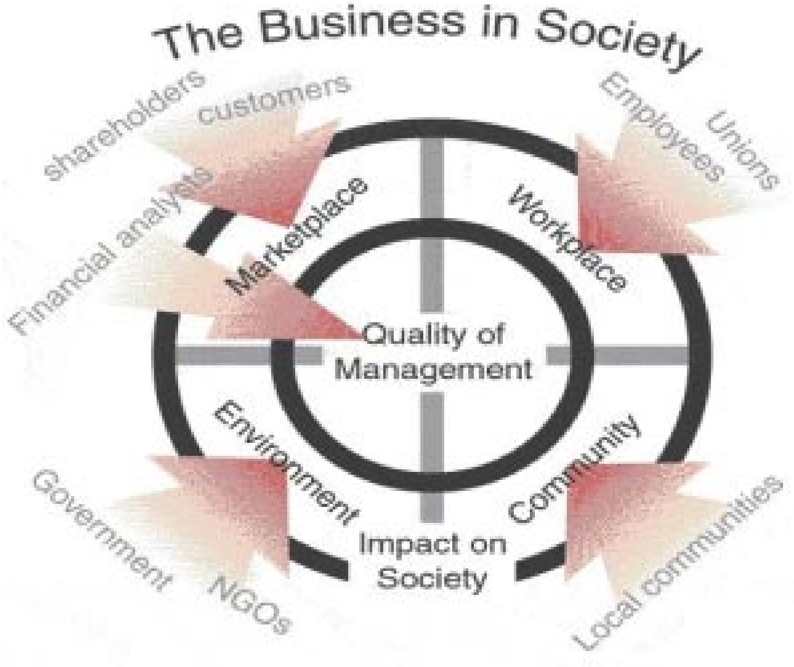

Figure 14.1: The Business Society

Here we find that companies need to answer two aspects of their operations**:**

1) The quality of their management - both in terms of people and processes (the inner circle).

2) The nature and quantity of their impact on society in the various areas.

Outside, stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle - what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or in how it treats and develops its workforce. It is believed that this model may be more sustainable because here social responsibility becomes an integral part of the wealth creation process, which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society. When times get hard, there is the incentive to practice CSR more.

Since the early 1980s, a significant body of CSR research has centred around the debate over whether there is a relationship between good Corporate Social Performance (CSP) and strong financial performance and what kind of relationships exist. Today businesses are becoming increasingly interested in the idea of the ‘Triple Bottom Line’ (TBL). This idea focuses not just on the economic value of the businesses that they may gain from acting in certain way, but also on the value that they may accrue to the company’s bottomline by engaging in environmentally and socially beneficial practices. The three ‘line’ represent the economy, the environment and the society and are all dependent on each other. Whether companies do actually take each line into account is difficult to measure as the arguments surrounding financial benefits of the company from being socially responsive are not clear cut. Although positive relationships have been found, there are several difficulties inherent in measuring these linkages. One problem is that it is not clear whether social responsibility leads to increased financial performance or whether better profits lead to more funds being available to devote to CSR activities. The other issue is that profit is an incomplete measure of social performance (Lantos 2001). Yet another is the difficulty of developing a consistent set of measures that define CSR or CSP.

The following factors are taken into account for understanding the importance of CSR:

- Globalization and the associated growth in competition
- Increased size and influence of companies
- War for talent, companies competing for expertise
- Increased importance of intangible assets

Improved Financial Performance: While it remains difficult to determine a direct causal relationship between increased accountability and financial performance, a variety of studies suggest that such a link exists. For example, according to 2002 Global Investor Opinion Survey released by McKinsey & Company, a majority of investors are prepared to pay a premium for companies exhibiting high governance standards. Premiums averaged 12-14 percent in North America and Western Europe; 20-25 percent in Asia and Latin America; and over 30 percent in Eastern Europe and Africa. The study also found that more than 60 percent of investors state that governance considerations might lead them to avoid individual companies with poor governance.

Heightened Public Credibility: Companies that demonstrate a willingness to provide information that is credible, verifiable, and accessible can garner increased trust among stakeholders. Forthright and candid reporting about company achievements as well as performance shortfalls helps companies create a public reputation for honesty. At the same time, companies that make a public commitment to increase accountability and transparency need to ensure that they have robust systems for implementation, lest the company risk negative public backlash for failing to live up to its commitments.

Reduced Costs: The enhanced communication that is often part of corporate accountability efforts can help build trust between companies and stakeholders, which can reduce costly conflict and improve decision-making. Companies that proactively and effectively engage shareholders and address their concerns can reduce the costs associated with shareholder proposals. In addition, social and environmental reporting efforts can help identify the effectiveness of various programmes and policies, often improving operating efficiencies and reducing costs. Reporting information can also help identify priorities to ensure that company is achieving the greatest possible impact with available resources.

Increased Attractiveness to Investors: Investors — whether shareholders invested in socially responsible funds that screen companies for social and environmental attributes, or large institutions — welcome the increased disclosure that comes with corporate accountability. A growing number of investors are including non-financial metrics in their analysis of the quality of their investments. New metrics cover labour and environmental practices; board diversity, independence, and other corporate governance issues; and a wide variety of other social and environmental criteria. Research suggests investors may be willing to pay higher prices for the stock of companies considered to be accountable. For example, a 2000 survey of 200 large institutional investors conducted by McKinsey & Co., the World Bank, and Institutional Investor's regional institutes found that three-quarters of stackholders consider board practices as important as financial performance when evaluating companies for investment. The study also found that more than 80 percent of investors would be willing to pay more for the shares of a well-governed company than for a poorly governed company with comparable financial performance.

Improved Relationships with Stakeholders: Companies that make an effort to be transparent and accountable for their actions and decisions are better able to build trust among their stakeholders. This engagement helps companies understand how community groups and other stakeholders perceive them, and educates them about future issues and concerns that may affect their operations. The information gained can help companies better define priorities and ensure business activities align with professed business principles or ethical codes. Many government agencies and stakeholders look favourably at companies that self-identify and publicly disclose accountability challenges and demonstrate that they are working to solve them. Best practice solutions include the development of management systems that reduce the likelihood of recurrence.

Early Identification of Potential Liabilities: The strategic information that can come from efforts to develop a more accountable company — including social and environmental auditing and reporting and stakeholder dialogue — can identify practices or situations that could pose liabilities to a company. Early identification can provide companies with the opportunity to resolve problems before they result in costly legal actions or negative public exposure. Issues that might surface more quickly in an accountable company include: environmental problems that could endanger public health, workplace discrimination or harassment that could result in lawsuits, marketing practices that do not price products or services equitably, or hiring practices that inadvertently give unfair advantage to certain populations. Social and environmental auditing and reporting can also identify where company practices may be in violation of government regulations or the standards or expectations of key stakeholder groups.

Marketplace Advantages: Accountability can make entry and success in new markets easier by helping establish direct relationships with key customers and business partners. These relationships can contribute to innovation in product development or delivery, help mitigate potential negative media coverage, and enhance market presence. Some companies have used dialogue with stakeholders to help make decisions on overseas investments and operations, or to overcome the challenges of operating in markets with different cultures, laws, and languages. For example, Unilever’s Indian subsidiary, Hindustan Lever, has worked with local stakeholders to develop a new delivery system for laundry detergent in Indian villages. The company was experiencing difficulty in selling its product until it was suggested by stakeholders that the company package its product in single-use quantities that would be affordable to local residents with limited disposable incomes.

Improved Overall Management: Many companies that have developed clear CSR performance and accountability systems inside their organizations report experiencing an improvement in their management practices overall. Increasingly, companies are finding that the impact of systems designed to increase accountability for CSR performance is not limited to the CSR realm, but can also impact performance in other areas as the culture of the organization undergoes change. An analysis of Fortune 500 companies conducted at the Boston College, Carroll School of Management found that companies judged as treating their stakeholders well are rated by peers as also having superior management.

Improved Organizational Effectiveness: The process of self-assessment and evaluation, which is part of increasing accountability can have beneficial impact on company operations. For example, social and environmental auditing and reporting give companies the opportunity to assemble and assess more comprehensive information on operations and impacts. This information can help coordinate and maximize efficiencies and collaborations across departments, facilities, and business units. Through this process, companies compile examples of successful programmes from various parts of their organizations and share the learnings throughout the company, leading to more effective and efficient policies and practices. Dialogue and partnerships with stakeholder groups can help companies build skills and competencies, or align company operations with overarching mission and values.

Decreased Risk of Adverse Publicity: Accountable companies may be better prepared to address the concerns of customers or other stakeholders who might otherwise take negative action on social issues. For example, by engaging in a dialogue with stakeholders about their interests and concerns, and addressing those concerns in business implementation processes, companies may be able to head off or minimize the impacts of boycotts organized by consumer groups. Similarly, companies that proactively address the concerns of shareholders can reduce the risk of adverse publicity stemming from high-profile shareholder disputes.

Activity 1

a) Explain with examples the nature of activities of a company which would qualify for under its CSR initiatives as the concept of CSR evolved since the beginning of 20th century with charity principle.

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b) Suggest some more benefits/importance of CSR for business allover.

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14.4 CSR AND COMPANIES IN INDIA

In India, most of the work done by companies is still in nature of philanthropy. Consider that of the six short listed companies for the Business World FICCI CSR award for year 2003, five (Lupin, Canara Bank, Indal, Gujrat Ambuja and Wipro) are involved in community development work. This means building roads, running schools and hospitals, creating income-generating schemes and similar projects . Only ITC's CSR – its e-choupal project and others - has direct linkages with its business. This is understandable given that many of the traditional development indicators – life expectancy, infant and child mortality, sanitation facilities and access to primary education – are still abysmal for India. In fact even the government expects Corporate India to participate in welfare programmes even though it is a tacit admission that the state has failed to deliver even the most basic amenities. But of late experts argue that as India gets integrated into the global economy, companies should pick up projects that are business centric. The CSR initiatives should become a part of the business process.

In an era of no free lunches , the attraction that the business centric model of CSR holds is obvious. But if more Indian Companies are to adopt that, some other things , too, need to change besides mindsets and developmental needs. The links between good CSR and good business have to be established clearly. Sure even overseas there is still no way that the capital markets reward good CSR practices directly or are willing to ovelook other flaws in lieu of good CSR. But experience shows that substantial benefits do flow in different ways.

Research in West shows that investors are increasingly questioning companies on corporate social practices and are allying with those that have high respect for CSR. In fact there is a whole eco-system being built around this concept – with outfits like Ethical Investment Research Service, a U K based independent researcher of ethical, social and environmental practices advising outfits like Goldman Sachs, J P Morgan, Redit Suisse, Merill Lynch and Standard Life on CSR practices of companies. Moreover the likes of FTSE and Dow Jones are coming up with indices such as the FTSE 4 Good and the DOW Jones Sustainability World Index. The FTSE 4 Good is an index comprising stocks of companies with good practices. To be a part of FTSE 4 good family of indices one need to apply to the FTSE 4 Good applications committee. In the absence of all these , it's quite unlikely that CSR in India will change from being more philanthropic to more business centric in the near future. Yet such developments taking place worldwide and also because India is developing as back office centre, movement towards business centric CSR models is possible.

Taking clue from the Business World FICCI CSR Awards, still it is not clear how much Indian companies invest in CSR but from the list of the companies that applied and evidence on ground suggest that time has come and is important for large companies to enter into business centric CSR models. However, considering India where so much is to be done, it doesn't matter whether companies take business centric view or the philanthropic centric view.

14.5 THE MEASUREMENT OF CSR

Briefly, CSR is measured following a systems model of a business into three levels:

- Principles of social responsibility
- Processes of social responsiveness
- Outcomes as they relate to the firm's societal relationships

Level I Principles of Social Responsibility

This level of the CSR model is about the relationship between business and society at large and it has three major elements:

- Legitimate concerns of business as a social institution and it frames the analytical view of the interrelationship between business and society.
- Public responsibility concerns of the individual firm and its processes and outcomes within the framework of its own principles.
- Managerial discretion whereby managers and other organisational members are moral actors. Within every domain of corporate social responsibility, they are obliged to exercise such discretion as is available to them, towards socially responsible outcomes.

Level II Processes of Social Responsibility

Corporate social responsiveness is a business's capacity to respond to social pressures. This suggests the ability of a business organization to survive through adaptation to its business environment. To do so, it must know as much as possible about this business environment, be capable of analyzing its data, and must react to the results of this analysis. But the environment of business is not static; it is a complex and ever changing set of circumstances. This environment can be unchanged for decades, if not centuries, and then it falls apart and is reformed like a kaleidoscope with increasing rapidity. The ability to successfully scan, interpret, and react to the business environment requires equally complex mechanisms. Three elements are identified as basic elements of this level of the CSR model:

- Business Environment Scanning: indicates the informational gathering arm of the business and the transmission of the gathered information throughout the organization.
- Stakeholder Management: A stakeholder is defined as any group or individual who can affect or is affected by the achievement of the firm's objectives. For example, owners, suppliers, employees, customers, competitors, governments; nonprofit organizations, environmental and consumer protection groups and others. Stakeholder Management refers to mapping the relationships of stakeholder to the firm (and among each other) whilst finding, listening and meeting their expectations and seeking to balance and meet legitimate concerns as a prerequisite of any measurement process.
- Having identified the motivating principles of a firm and having determined the identities, relationships, and power of stakeholders, attempt then is to turn to the main issues which concern stakeholders.

Level III Outcomes

The main focus of measurement is the third level of the CSR model. To determine if "CSR makes a difference", all of the stakeholders relevant to an issue or complex of issues must be included in any assessment of performance. There are, again, three main categories:

- Internal stakeholder effects – those that affect stakeholders within the firm. An examination of these might show how a corporate code of ethics affects the day to day decision making of the firm with reference to social responsibility. Similarly, it can be concerned with human resource policies such as the positive or negative effects of corporate hiring and employee benefits practices.

- External stakeholder effects concern the impact of corporate actions on persons or groups outside the firm. This might involve such things as the negative effects of a product recall, the positive effects of community related corporate philanthropy, or assuming the natural environment as a stakeholder, the effects of toxic waste disposal.
- External institutional effects refer to the effects upon the larger institution of business rather than on any particular stakeholder group. For example several environmental disasters made the public aware of the effect of business decisions on the general public. This new awareness brought about pressure for environmental regulation which then affected the entire institution of business rather than one specific firm.

The Global Reporting Initiative

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world. Started in 1997 by the Coalition for Environmentally Responsible Economies (CEREs), the GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. The GRI's Sustainability Reporting Guidelines (last revised in July 2002) address a broad range of corporate social responsibility issues related to an organization's (1) economic performance (e.g., wages and benefits, training, research and development), (2) environmental performance (e.g., energy, water and materials use; greenhouse gas emissions, land use/biodiversity), and (3) social performance (e.g., labor and human rights, workplace health and safety, employee retention). In addition to the core GRI guidelines, GRI is also leading the development of a series of sector supplements to the guidelines, e.g., for the finance and mining communities. While the GRI promotes itself as a reporting framework/guideline only, it is having increasing influence in the debate on the ways and means a company should structure and govern its transparency and reporting, and general sustainability efforts.

Global Sullivan Principles

Introduced in 1999, the Global Sullivan Principles expand upon the original Sullivan Principles, developed by The Reverend Leon H. Sullivan in 1977 as a voluntary code of conduct for companies doing business in apartheid South Africa. The principles cover areas of accountability, human rights, community engagement, environmental performance, marketplace practices, ethics and value chain responsibility. Endorsing companies and organizations are asked to take part in an annual reporting process to document and share their experiences in implementing the principles.

14.6 FUTURE OF CSR

CSR pessimists predict:

- Increasing inconsistencies between corporate actions and stated CSR commitments; companies will become astute at shielding their actual performance.
- CSR will be a technical fix.
- Real substantive issues won't be addressed by CSR.

Most businesses will hold back waiting for the business case to develop - however, they may never be satisfied by the evidence of business case and may use this as an excuse for inaction.

- The business case will not be clear enough for companies to take up en masse, unless it is legislated or there are other incentives.
- CSR will not be on the public's radar screen and there won't be any clarity about what CSR is and why it is important.
- CSR will become too prescriptive and get labeled as needless red tape increasing the cost of business.
- Companies that once embraced CSR will lose interest and pursue other objectives.
- Those engaged in CSR shift to minimal CSR activities, never moving beyond baseline CSR.
- Pressures on business to cater to shareholders at the expense of all other stakeholders will continue if not increase; the imbalance of power will not change unless the membership on company boards changes to include stakeholder interests or until government legislation is brought to bear.

CSR optimists believe that the pessimists are only looking at the gap of where we are and where we need to be, without acknowledging that mindset change takes time and recognizing that the slow incorporation of these ideas is underway in business. They believe that the disillusionment is a function of the hope for too much too quickly.

CSR optimists believe that:

- In the future a significant number of companies will be convinced it's in their strategic interest to incorporate CSR substantively into their operations.
- There is a crisis in industrial capitalism, which lacks in trust and social responsibility. Therefore, a rethinking should be done to decide the role of companies in society.
- CSR is at crossroads, in a time of real discontinuity, enormously in flux.
- The crisis in global markets is broadening the discussion of accountability and transparency - in this climate there is more openness to CSR ideas. CSR will be seen as good corporate governance.
- There will be pressure through competition for better CSR performance - this will impact on suppliers, etc.
- A small group of companies will be moving ahead quickly.
- There will be differentiation between different models and levels of CSR as a result of continuous improvement and quality assurance.
- CSR will advance, but it will advance inconsistently across sectors, depending on a company's economic performance, economic downturns, competitiveness of the market, etc.
- Underlying structural drivers will impact large scale companies, such as the value of knowledge workers and other intangible assets, driving companies to take different issues into account.

- We see only a few companies committed to CSR because we are at the beginning of a long path on this journey; the shift toward sustainable capitalism is a long term trend and in 5 - 10 years only a few companies will be moving in this direction.
- Increasingly businesses will see CSR as resulting in increased competitiveness and profitability.
- CSR is part of a search for a new social contract between business and society. This new social contract will not necessarily be through the creation of a set of rules, but about a new set of norms arrived at through experimentation.

In spite of the difference in views of social impact and degree of corporate commitment, the majority of the optimists and the pessimists agree that 5 - 10 years from now CSR will nonetheless become increasingly mainstream within business, even if not within the public consciousness. CSR tools, resources, language - all will become more aligned with business norms and systems. CSR standards - to greater or lesser effect - will be part of business basics and not an add-on.

Activity 2

Write a short note on the CSR principles of any one of Indian companies which may be well organized for its CSR initiative.

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14.7 SUMMARY

With the given understanding that businesses have a key role of job and wealth creation in society, CSR is generally understood to be the way an organization achieves a balance between economic, environmental, and social imperatives while they address the expectations of the shareholders and the stakeholders. Companies of late see CSR as an integral part of the long term business strategy. Now a days lots of companies are taking it seriously for good of business. Very briefly, the following strategic steps should be taken by a firm to fulfill its social responsibility.

1) Assessment of economic and social impact
2) Assessment of social environment
3) Appraisal of the firm’s policies and practices
4) Formulating objectives and strategies
5) Developing operational plans and programmes
6) Monitoring social programmes
7) Summary of the outcomes and performance

14.8 SELF ASSESSMENT QUESTIONS

1) What do you understand by Corporate Social Responsibility and what significance does it have for business?

2) What are the differences you find in the philanthropy centric view of CSR and business integrated view of CSR?

3) What are the important benefits which companies foresee in adopting CSR? Throw some light on the various initiatives of the companies in India?

4) Discuss briefly the measurement aspect of CSR and its performance benefits for companies.

14.9 FURTHER READINGS

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