YOUNG ENTREPRENEURS

ENTREPRENEURSHIP AND SMALL AND MEDIUM ENTERPRISE MANAGEMENT COURSE TEXTBOOK

FOR MYANMAR

SWISS ACADEMY FOR DEVELOPMENT

CVT myanmar
Center for Vocational Training
Berufsbildungszentrum

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IMPRESSUM

Publisher: Center for Vocational Training
(CVT) and Swiss Academy for Development (SAD)
Authors: Dr. Thet Htar Khin, Yin Yin Aye,
Kathleen Woodhouse-Ledermann, CVT trainers,
Nay Lin Aung and Daniel Matter
Layout: SAD

CENTRE FOR VOCATIONAL TRAINING—MYANMAR (CVT)

CVT-Myanmar, the organization for professional training in Myanmar, together with the headquarters in Switzerland operates a prototype school—a three-year commercial college and a secondary school (for pupils from 5th to 8th class) in Yangon. The school's aim is to give young people in Myanmar the opportunity to achieve basic qualified training in accordance with the needs of the working market. Specialists from Switzerland take charge of the professional training, they are in charge of professional development and further education for the teachers and responsible for the quality of management.

The Empowering Youth 4 Business (EY4B) Programme started in 2015 together with the Swiss Academy for Development. The premise of the course is to offer young people from all educational backgrounds with fundamentals in business to equip them with the necessary knowledge to start a business. This textbook supports the trainers in their teaching and guidance in creating a business plan.

Through the programme's mentoring component, participants gain access to experienced business owners who provide critical support to translate initial ideas for starting a business into a viable business plan and introduce them to the concept of building business relationships.

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The Swiss Academy for Development (SAD) is a centre of excellence for sport and development. We use sport and play to empower disadvantaged children and young people in Switzerland and internationally to become healthy, educated and employed citizens.

We see sport as being a form of life-long learning, and are convinced that people learn best through play. Children and young people acquire basic skills through sport and play, which help them to deal with the challenges of daily life and to actively shape their lives.

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SAD was founded in 1991 as a not-for-profit foundation in Biel/Bienne, Switzerland. We are ZEWO certified (Swiss seal of quality for not-for-profit organisations).

ACKNOWLEDGEMENTS

This textbook was originally written and assembled by Dr. Thet Htar Kyaw, together with Empowering Youth 4 Business (EY4B) business trainers Yin Yin Aye, U Taw Oggkar, May Thu Kyaw and project manager Nay Lin Aung. Their hard work provided many students in the Yangon area with a unique and understandable textbook that until now was unavailable in Myanmar. Other EY4B business trainers provided feedback on chapters and invaluable recommendations for new content. A special thanks to Khin Myat Sandar, CEO of CVT, and Yin Yin Aye, Operations Director, for all of their support during this process. Finally, SAD could not have revised the textbook without the constant help of Nay Lin Aung.

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1.1 ENTREPRENEUR

(Zimmerer and Scarborough p. 5–8)

An entrepreneur is a person who creates a new business, in the face of risk and uncertainty, for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalise on them. Although many people come up with great business ideas, most of them never act on them. Entrepreneurs do.

An increase in the number of entrepreneurs is an indication of a healthy, growing, economic system that is creating new and better ways of serving people's needs and improving their quality of life and standard of living. Studies have identified the following characteristics that entrepreneurs tend to exhibit:

1. Desire for responsibility Entrepreneurs feel a deep sense of personal responsibility for the outcome of the ventures they start. They prefer to be in control of their resources, and they use those resources to achieve their own goals.

2. Preference for moderate risk Entrepreneurs are not wild risk takers but are instead calculated-risk takers. Their goals may appear to be high—even impossible—in others' eye, but entrepreneurs see the situation from a different perspective and believe that it reflects their knowledge, backgrounds, and experiences, increasing their probability of success. Successful entrepreneurs are risk eliminators, removing as many obstacles as possible to make a successful launch of their ventures. One of the most successful ways of eliminating risks is to build a solid business plan for a venture. A business plan is a document that explains how a business will reach its goals by outlining its marketing, financial and operational plans.

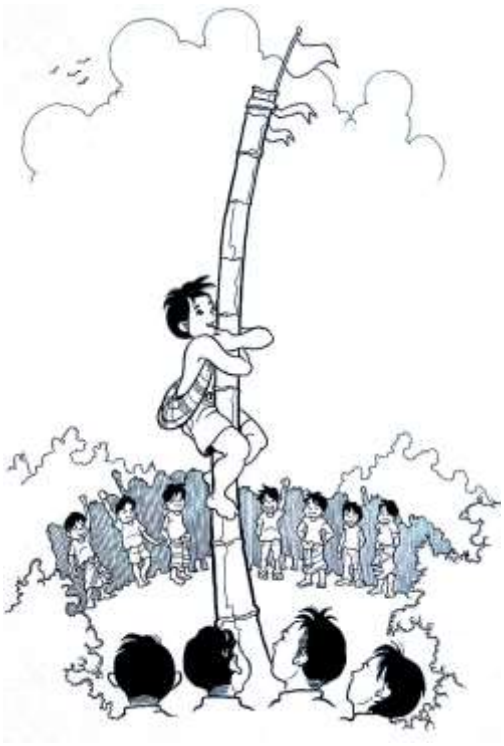


Figure 1 Climbing the pole

3. Confidence in their ability to succeed Entrepreneurs typically have an abundance of confidence in their abilities and they tend to be optimistic about their chances of success. This high level of optimism may explain why some of the most successful entrepreneurs have failed in business, often more than once, before finally succeeding. They don't believe in luck, they believe in themselves.

4. Desire for immediate feedback Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback.

5. High level of energy Entrepreneurs are often more energetic than the average person. That energy may be a critical factor, given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling.

6. Future-oriented Entrepreneurs have a well-defined sense of searching for opportunities. Not satisfied to sit back and think about their success, real entrepreneurs stay focused on the future. Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become a huge success).

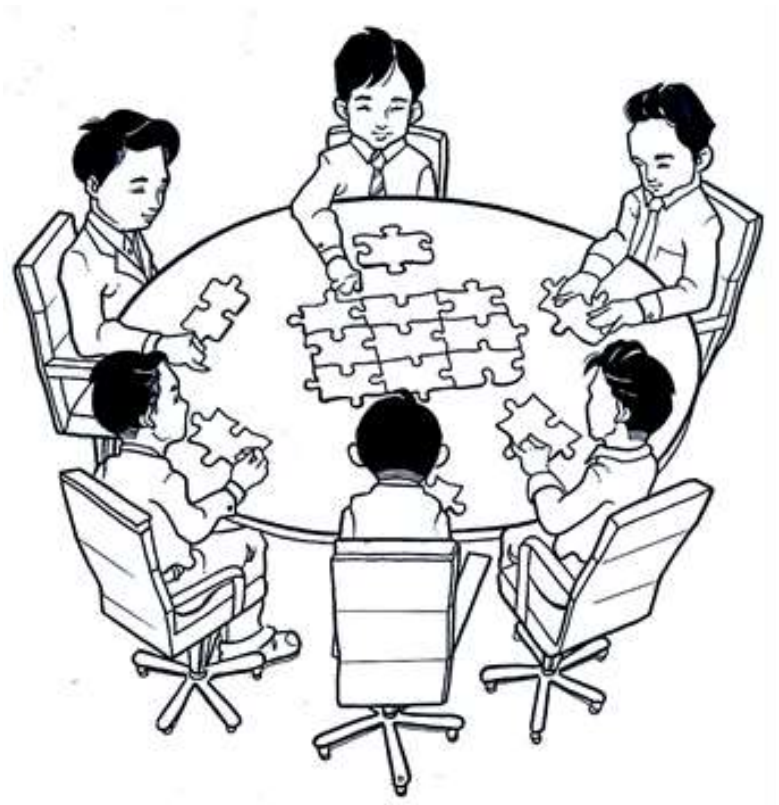


Figure 2 Putting the puzzle together

Whereas traditional managers are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalising on

opportunities. Entrepreneurs start businesses because they spot an opportunity in the marketplace, not because they cannot find work any other way.

7. Skilled at organizing Building a company nothing is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality.

8. Value of achievement over money Achievement seems to be an entrepreneurs' primary motivating force. Money is simply a way of keeping score of accomplishments and is merely a symbol of achievement.

Section questions: Who do you think of when you hear the word entrepreneur? Do you have examples of entrepreneurs around you (family, friends, boss, etc.)? What makes you think of her/him as an entrepreneur?

1.2 BENEFITS OF ENTREPRENEURSHIP

(Zimmerer and Scarborough p. 8–10)

Owners of small businesses believe they work harder, earn more money and are more satisfied than if they worked for someone else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership. Below are some examples of benefits.

1. Opportunity to create your own destiny Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to make the decisions in their lives, and they use their businesses to make that desire a reality. Entrepreneurs reap the intrinsic rewards of knowing they are the driving forces behind their business.

2. Opportunity to make a difference Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

3. Opportunity to reach your full potential Too many people find their work boring, not challenging, and unexciting. But not entrepreneurs! They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm and vision. Owning a business gives them a sense of empowerment.

4. Opportunity to reap impressive profits Although money is not the primary force driving most entrepreneurs, the profit their businesses earn is an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich, but many of them do become quite wealthy.

Figure 3 Profits

5. Opportunity to contribute to society and be recognised for your efforts Often small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers they have served faithfully over the years.

6. Opportunity to do what you enjoy and have with it Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have made their hobbies/interests their work and

are glad they did. The journey rather than the destination is the entrepreneur's greatest reward.

Section questions:
Which of the benefits listed mentioned above are the most important for you? Why? What kind of work keeps you interested?

1.3 POTENTIAL DRAWBACKS OF ENTREPRENEURSHIP

(Zimmerer and Scarborough p. 11–15)

Although owning a business has many benefits and provides many opportunities, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Some of the disadvantages of entrepreneurship include the following:

1. Uncertainty of income Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. In a business' early days, the owner often has trouble meeting financial obligations and may have to live on savings. The steady income that comes with working for someone else is absent. The owner is always the last one to be paid.

2. Risk of losing your entire investment The small business failure rate is relatively high. Before reaching for the stars, entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure.

3. Long hours and hard work In many start-ups, six- or seven-day workweeks with no paid vacations are normal. In fact, small business owners often have no plans to take a summer vacation. These owners feel the pressure because they know that when the business closes, the revenue stops coming in, they can no longer pay their employees and customers go elsewhere.

4. Lower quality of life until the business is established Business owners often find that their roles as husbands or wives, fathers or mothers take a back seat to their roles as

company founders. As a result, marriages, families and friendships may suffer.

5. High levels of stress

Figure 4 Stressful situations

Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck and have mortgaged everything they own to get into business. Failure may mean total financial ruin, and that creates intense levels of stress and anxiety.

6. Complete responsibility Many entrepreneurs find that they must make decisions on issues that they are not really knowledgeable about. Business owners have no one to turn to for help when making a critical business decision. When there is no one to ask, the pressure can build quickly. Small business owners soon discover that they are their business.

Section questions:

What from the above list worries you the most about starting a business? Are there are things that aren't mentioned that worry you? Would these things prevent you from

starting your business?

1.4 TEN DEADLY MISTAKES OF ENTREPRENEURSHIP

(Zimmerer and Scarborough p. 28–31)

Because of their limited resources, inexperienced management and lack of financial stability, small businesses suffer a mortality rate significantly higher than that of larger, established businesses. Exploring the circumstances surrounding business failure may help you to avoid problems. Here are some of the more common mistakes and issues entrepreneurs can face when starting a business.

1. Management mistakes The manager of a small business does not have the capacity to operate it successfully. The owner lacks the leadership ability, sound judgment and knowledge to make the business work.

2. Lack of experience Small business managers need to have experience in the field they want to enter. If an entrepreneur wants to open a retail clothing business, she/he should first work in a retail-clothing store. This will provide practical experience as well as knowledge about the nature of the business, which can spell the difference between failure and success.

Ideally, a prospective entrepreneur should have: adequate technical ability, the power to visualise, coordinate and integrate the various operations of the business into a synergistic whole, and the skill to manage the people in the organisation and motivate them to higher levels of performance.

Figure 5 Poor financial control

3. Poor financial control Successful business venture requires proper financial control. Business success also requires having a sufficient amount of capital on hand at start-up. Due to lack of accumulated goods and proper funds businesses run out of capital before they are able to generate positive cash flow. Entrepreneurs tend to be overly optimistic and often misjudge the financial requirements of going into business.

Many entrepreneurs believe that profit is what matters most in a new venture, but cash (available money) is the most important financial resource a company owns.

4. Weak marketing efforts Building a growing base of customers requires a sustained, creative marketing effort. Marketing is the promoting, selling and distributing of things. To get customers to come back requires providing them with value, quality, convenience, service and fun—and doing it all quickly. Small companies do not have to spend enormous sums of money to sustain a successful marketing effort. Creative entrepreneurs find innovative ways to market their businesses effectively to their target customers without breaking the bank.

5. Failure to develop a strategic plan Too many small business managers neglect the process of strategic planning because they think that it is something that benefits only large companies. Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace.

6. Uncontrolled growth Growth is a natural, healthy, and desirable part of any business, but it must be planned and controlled. Ideally, expansion should be financed by the profits they generate (retained earnings) or by capital contributions from the owners However, most businesses wind up borrowing at least a portion of the capital investment.

Expansions usually require major changes in organisational structure, business

practices such as inventory and financial control procedures, personnel assignments and other areas. The most important change, however, occurs in managerial expertise. As the business increases in size and complexity, problems increase in magnitude, and the entrepreneur must learn to deal with them.

7. Poor location Owners don't choose a particular location just because they notice a vacant building. The location question is too critical to leave chance. Researching the location (what is it close to, who passes by it, how easy is it to access, etc.) is key. Location is especially important for retailers who's sales are heavily influenced by choice of location.

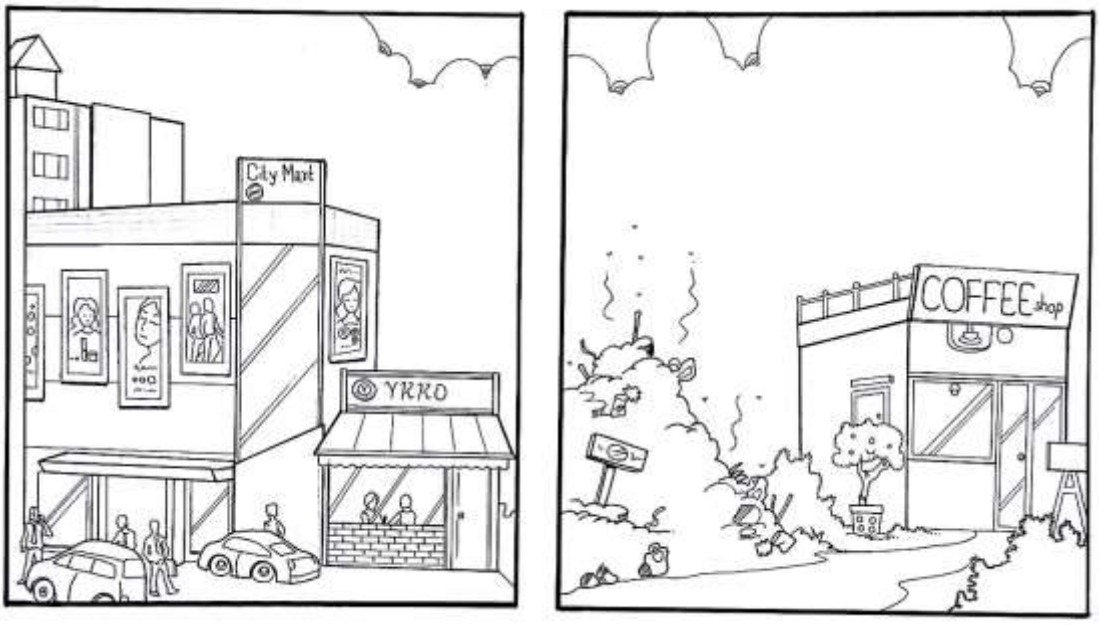


Figure 6 Location, location

8. Improper inventory control Inventory control is one of the most neglected managerial responsibilities. Insufficient inventory levels result in shortages and stock outs, causing customers to become disillusioned and leave. The opposite is also bad. Businesses can have too much inventory they cannot sell, or too much of the wrong type of inventory. Many small firms have an excessive amount of cash tied up in an accumulation of useless inventory.

9. Incorrect pricing Business owners must understand the cost of manufacturing/making their goods, market prices, delivery costs and services. Too

often, entrepreneurs simply charge what competitors charge or base their prices on some vague idea of "selling the best product at the lowest prices". Both approaches are dangerous as they do not take into account the entire picture.

10. Inability to make the entrepreneurial transition After the start-up period, growth usually requires a radically different style of management. Growth requires entrepreneurs to delegate authority and to relinquish hands-on control of daily operations, something many entrepreneurs simply cannot do. Growth pushes them into areas where they are not capable, yet they continue to make decisions rather than involve others.

Section questions: Were any of the ten deadly mistakes new to you? Have you seen businesses make these mistakes or heard people talk about them?

1.5 AVOIDING THE PITFALLS

(Zimmerer and Scarborough p. 35–37)

We have seen the most common reasons behind many small business failures. The suggestions for success follow naturally from the causes of business failure. There are six main ways to avoid the pitfalls of starting and running a business.

1. Know your business in depth Do as much research and learning about your business area as you possibly can before you set out on your own. Read everything you can that relates to your industry and talk to relevant people. Personal contact with suppliers, customers, trade association and others in the same industry is another excellent way to get that knowledge. Learning from others is always helpful as it gives you a practical example of what can happen. Successful entrepreneurs are like sponges, soaking up as much knowledge as they can of sources.

2. Develop a solid business plan For any entrepreneur, a well-written business plan is a crucial ingredient in preparing for business success. Without a sound business plan, a business merely drifts along without any real. A business plan is the central location (document) for all of the research, development and analysis that has gone into thinking

about what the entrepreneur intends on doing and how.

A business plan allows entrepreneurs to replace faulty assumptions with facts before making the decision to go into business. The planning process forces entrepreneurs to ask and then answer some difficult, challenging and crucial questions.

3. Manage financial resources The most valuable financial resource to any small business is the available money. Although earning a profit is essential to its long-term survival, a business must have an adequate supply of cash to pay its bills and obligations. Growing companies usually consume more cash than they generate, and the faster they grow, the more cash they gobble up!

4. Understand financial statements

Figure 7 Financial statements

Every business owner must depend on records and financial statements to know the condition of her/his business. To truly understand what is going on in the business, an owner must have at least a basic understanding of accounting and finance. When analysed and interpreted properly, these financial statements are reliable indicators of a small firm's health. They can be quite helpful in signaling potential problems.

5. Learn to manage people effectively Every business depends on a foundation of well-trained, motivated employees. The people an entrepreneur hires ultimately determine the heights to which the company can climb or the depths to which it can plunge. Attracting and retaining of quality employees remains a challenge for every small business owner.

6. Keep in tune with yourself The success of your business will depend on your constant

presence and attention, so it is critical to monitor your health closely. Stress is a primary problem, especially if it is not kept in check.

Successful entrepreneurs recognise that their most valuable asset is their time, and they learn to manage it effectively to make themselves and their companies more productive. None of this, of course, is possible without passion—passion for their businesses, their products or services, their customers and their communities. Passion is what enables a failed entrepreneur to get back up, try again, and make it to the top.

Section questions: Have you done a lot of thinking about starting your own business? What are some of the ideas that you have? What type of planning and researching have you done? Have you heard of a business plan? If so, in what context?

1.6 RISK MANAGEMENT

Figure 8 Walking the tightrope

(Entrepreneur Magazine online—subject "risk management)

It is important to remember that no matter how well planned your business idea may be, there is always a risk that it will not work. Risk means there is a chance of loss of an undesirable outcome from what you expected or hoped for (Definition from Merriam-Webster dictionary.) In small business, risk may mean losses associated with business assets and earning potential of the business.

Risk management is overseeing and process of reducing the vulnerability of a business and finding ways to protect the assets and assets and earning power.

The manager of a small business is usually the risk manager. The small business manager should be able to identify the different types of business risks and be able to cope with them. This is done through researching similar businesses to see what risks they face, evaluating trends of what is popular over time, knowing the strength of their business, always knowing the budget, awareness of how changes in the economy will affect the business and having a strong business plan.

Section questions:
Why is it important to consider the risks involved in business? Are there some risks you can already identify when thinking about your business?

1.7 COMMON BUSINESS RISKS

(Longenecker et al. p. 623–625)

Entrepreneurs face a number of risks as suggested in the previous section. Below are classifications of risks that entrepreneurs need to keep in mind when thinking about their business.

Market-centered risks Market risks are uncertainties associated with investments. Many of these factors directly affect the firm's competitive position and potential for long-term survival. Characteristically, market-related risks develop slowly on a daily basis until, finally, they become destructive.

- Supplier interruptions: A small firm is often highly dependent on suppliers to keep its business running smoothly. When a major supplier experiences an interruption of their business operations, this affects their customers.
- Deteriorating economic conditions: Periods of high inflation, rising interest rates, declining discretionary income and recessions are all symptoms of a deteriorating economy and are uncontrollable variables to the small business manager. Small

businesses can be particularly vulnerable to these changes.

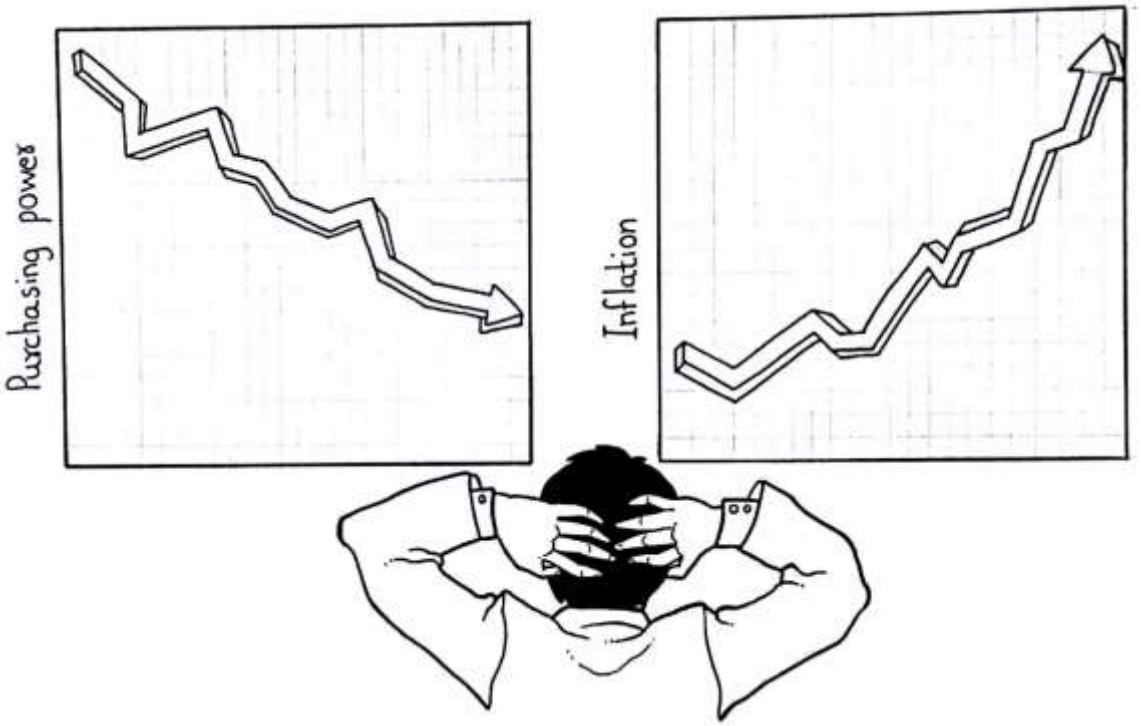


Figure 9 Purchasing and inflation

— Falling demand for a product: All products go through a life cycle. Often the downturn in sales occurs suddenly and with little warning. Keeping abreast of the market can help reduce the impact of this type of risk.

Property-Centered Risks When establishing a business, entrepreneurs often buy or rent property. This comes with risks. If the property is damaged or destroyed, small businesses will experience a loss. Damages can come from fire, natural disasters or theft.

Personnel-centered risks Entrepreneurs also face risks when it comes to employees. Dishonesty, theft and quick turnover are just some examples of things that can hurt the business. Aside from financial loss that this represents, it also means that all of the time put towards hiring and training staff has been a waste. Managers spend a lot of time and energy hiring staff.

Customer-centered risks Customers can also represent a certain risk even though they are the source of revenue. If customers do not like the product or service, they can

influence others by sharing this information. Customers can get hurt on the business' property and cause problems for the owner. They can also fail to pay their debts/bills when asked which hurts revenue.

Coping with small-business risks Once entrepreneurs are aware of the risks involved in running a business, they can plan for these problems both strategically and financially. Using common sense to avoid certain problems is one way of managing risk. Entrepreneurs can also put money aside to deal with possible property damage or losses. A solid plan for hiring good staff is not foolproof, but getting good recommendations from sources that you trust already helps.

Section questions: What are some of the risks you can think of for your potential business? Are there ways of planning for these risks or avoiding them? Can you name some risks to businesses that cannot be planned for or managed?

CHAPTER 2

CREATIVITY & INNOVATION

CREATIVITY AND INNOVATION
CREATIVE THINKING
BARRIERS TO CREATIVITY
ENHANCING ORGANISATIONAL CREATIVITY

2.1 CREATIVITY & INNOVATION

(Zimmerer and Scarborough p. 42–44)

Entrepreneurs need both creativity and innovation to come up with a good business idea. Creativity is the ability to develop new ideas and to discover new ways of looking at problems and opportunities. Innovation is the ability to apply creative solutions to those problems and opportunities to enhance or to enrich people's lives.

Creativity is thinking new things and innovation is doing new things. Entrepreneurs succeed by thinking and doing new things or old things in new ways. Simply having a great new idea is not enough; transforming the idea into a tangible product, service or business venture is the essential next step.

Peter Drucker says, "Innovation is the specific instrument of entrepreneurs, the means by which they exploit change as an opportunity for a different business a different service".

Successful entrepreneurs come up with ideas and then find ways to make them work to solve a problem or to fill a need.

Sometimes innovation involves generating something from nothing. However, innovation is more likely to result from elaborating on the present, from putting old things together in new ways, or from taking something away to create something simpler or better.

More often, creative ideas arise when entrepreneurs look at something old and think of something new or different. Entrepreneurs also create innovations to solve problems they observe, often problems they face themselves.

Section questions: What does the word creativity mean to you? What does innovation mean? Do you think of these things as important characteristics for an entrepreneur?

2.2 CREATIVE THINKING

(Zimmerer and Scarborough p. 47–49)

The human brain develops asymmetrically, and each hemisphere tends to specialise in certain functions. The left-brain is guided by linear, vertical thinking (from one logical conclusion to the next), whereas the right-brain relies on kaleidoscopic, lateral thinking (considering a problem from all sides and jumping into it at different points). The left-brain handles language, logic and symbols; the right-brain takes care of the body's emotional, intuitive and spatial functions. The left-brain works through information in a step-by-step process, but the right-brain processes it intuitively, relying heavily on images.

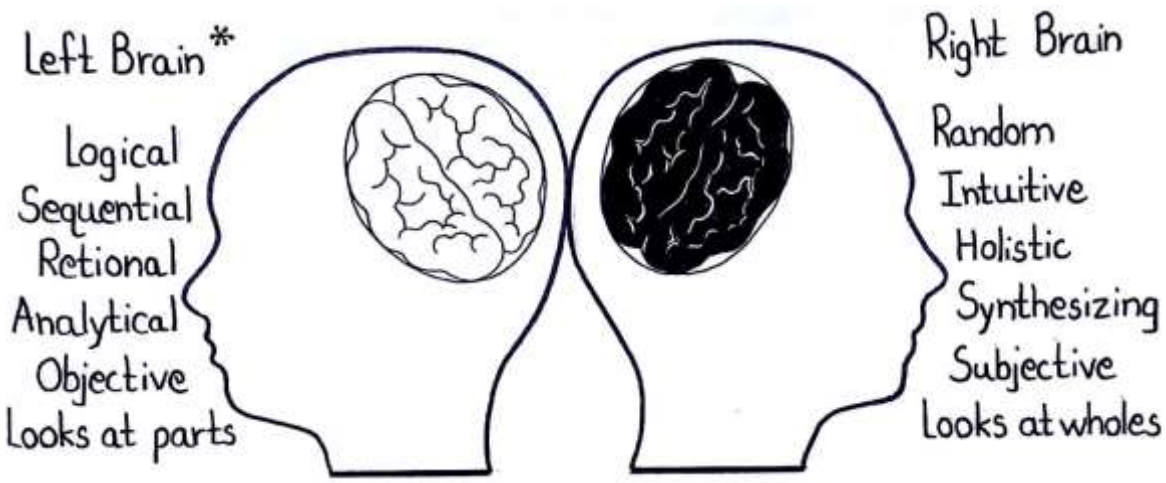


Figure 10The left and right brain

Right-brain driven, lateral thinking, lies at the heart of the creative process. Those who have learned to develop their right-brained thinking skills tend to:

- Always ask the question "Is there a better way?"
- Challenge custom, routine and tradition
- Be reflective
- Realise that there may be more than one "right answer"
- Relate seemingly unrelated ideas to a problem to generate innovative solutions
- Have "helicopter skills"—the ability to rise above daily routine to get a broader perspective before swooping back to details to fix the problem

Successful entrepreneurship requires both left- and right-brained thinking. Right-brained thinking draws on the power of divergent reasoning, which is the ability to create multitude of original, diverse ideas. Left-brain thinking counts on convergent reasoning to evaluate multiple ideas and choose the best solution to a given problem. Entrepreneurs need to rely on right-brain thinking to generate innovative products, services or business ideas. Then, they must use left-brain thinking to judge the market potential of the ideas they generate. Entrepreneurs, who rarely can be accused of being 'half-hearted'' about their business ideas, run the risk of becoming ''half-headed.''

Section questions: When are you the most creative? Is it at work or at home? Are there certain environments, people or activities that help you think creatively? What is it about them that inspires you?

2.3 BARRIERS TO CREATIVITY

(Zimmerer and Scarborough p. 51–55)

The number of potential barriers to creativity are: virtually limitless-time pressures, unsupportive management, pessimistic co-workers, overly rigid company policies and countless others. Perhaps the most difficult hurdles to overcome, however, are those that not created by others but those that individuals impose on themselves. Some of the most common self-imposed barriers are described below.

1. Searching for the one "right'' answer Deeply ingrained in most educational systems is the assumption that there is one "right'' answer to a problem. It is not unusual for this one-correct-answer syndrome to become an inherent part of our thinking. In reality, however, most problems are ambiguous. Depending on the questions one asks, there may be (and usually are) several right answers.

2. Focusing on "being logical" Logic is a valuable part of the creative process, especially when evaluating ideas and implementing them. However, in the early imaginative phases of the process, logical thinking can restrict creativity. Focusing too much effort on being logical also discourages the use of one of the mind's most powerful creations: intuition (knowing by feeling not by proof). It is ok not to always be logical—think something different and to use non-logical thinking freely, especially in the imaginative phase of the creative process.

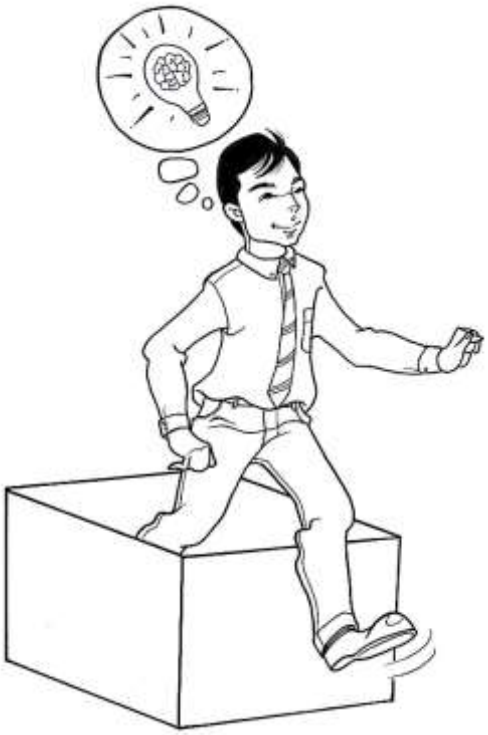


Figure 11 Thinking outside of the box

3. Blindly following the rules In many cultures, we learn at a very early age not to "color outside the lines", and we often spend the rest of our lives blindly obeying such rules. Sometimes, creativity depends on our ability to break the existing rules so that we can see new ways of doing things. Standing apart from others and going against tradition does not have to be bad.

4. Constantly being practical Imagining impractical answers to what if questions can be a powerful step in creative thinking. Suspending practicality for a while frees the mind to consider creative solutions that otherwise might never arise. Periodically setting aside practicality allows entrepreneurs to consider taking a product or a concept from one area and placing or applying it to something totally different.

5. Viewing play as frivolous A playful attitude is fundamental to creative thinking. There is a close relationship between the 'haha' of humor and the 'aha' of discovery. Children learn when they play, and so can entrepreneurs. Play should not be considered childish—it is something we enjoy as adults and we can learn valuable lessons from it. Creativity results when entrepreneurs take what they have learned at play, evaluate it, corroborate it with other knowledge and put it into practice. Encourage employees to have problems; they are more likely to push the boundaries and come up with a genuinely creative solution if they do.

6. Becoming overly specialised Defining a problem as one of marketing or production or some other area of specialty, limits the ability to see how it might be related to other issues. Creative thinkers tend to be explorers, searching for ideas outside their areas of specialty. Specialising might seem attractive when thinking about products or employment, but it can limit how an entrepreneur thinks and how her/his business evolves.

7. Avoiding ambiguity Ambiguity (something that is unclear) can be a powerful creative stimulus; it encourages us to think of something different. Being excessively detailed in an imaginative situation tends to stifle creativity. Ambiguity, however, requires us to consider at least two different, often contradictory notions at the same time, which is a direct channel to creativity. Ambiguous situations force us to stretch our minds beyond their normal boundaries and to consider creative options we might otherwise ignore. Entrepreneurs are famous for asking a question and then going beyond the first answer to explore other possible answers. Business opportunities can come from ambiguous situations.

8. Fearing looking foolish Creative thinking is no place for conformity! New ideas rarely are born in a conforming environment. People tend toward conformity because they don't want to look foolish. In that sense, entrepreneurs are top-notch "fools". They are constantly questioning and challenging accepted ways of doing things and the assumptions. In short, entrepreneurs look at old ways of doing things and ask, "is there a better way?" By destroying the old, they create the new.

9. Fearing mistakes and failure Creative people realise that trying something new often leads to failure. However, they do not see failure as an end. This cannot be emphasised enough. Just because an idea for a business does not work does not mean that it is a failure. It is a learning learning experience on the way to success. Failure is an important part of the creative process; it signals entrepreneurs when to change their course of action. Entrepreneurs who willingly risk failure and learn from it when it occurs have the best chance of succeeding at whatever they try. Successful entrepreneurs equate failure with innovation rather than with defeat.

10. Believing that "I'm not creative" A person who believes he or she is not creative will,

in all likelihood, behave that way and will make that belief come true. Many people who are considered geniuses, visionaries and inventors actually are no smarter and have no more innate creative ability than the average person. However, they have learnt how to think creatively and are persistent enough to keep trying until they achieve what they want. Successful entrepreneurs recognise that the statement "I'm not creative" is merely an excuse for inaction. Everyone has within him or her potential to be creative, though not everyone will tap into that potential.

Section questions: Are there any barriers listed above that apply to you? Which ones? Are there other barriers that you are creating for yourself in terms of creativity?

2.4 ENHANCING ORGANISATIONAL CREATIVITY

(Zimmerer and Scarborough p. 56–59)

Entrepreneurs must establish an environment in which creativity can flourish for themselves and for their workers. Ensuring that workers have the freedom and the incentive to be creative is one of the best ways to achieve innovation.

Entrepreneurs can stimulate their own creativity and encourage it among workers by following these suggestions, which are designed to create a culture of innovation.

1. Include creativity as a core company value Entrepreneurs should incorporate creativity and their innovation into their companies' mission statements and affirm their commitment to them in internal communications. If creativity and innovation are vital to a company's success, they should be a reflected in the ways in which staff work.

Figure 12 YE4M paper plane exercise

2. Embracing diversity When people solve problems or come up with ideas, they do so within the framework of their own experience. Hiring people from different backgrounds, cultures, experiences, hobbies and interests provides a company with different perspectives that lay the groundwork for creativity. Smart entrepreneurs enhance organisational creativity by hiring beyond their own comfort zones. Opportunities to learn from one another are important for entrepreneurs.

3. Expecting creativity Employees tend to rise or fall to the level of expectation entrepreneurs/managers have of them. One of the best ways to communicate the expectation of creativity is to give employees permission to be creative. Take the time to talk to staff about ideas and encourage them to share their thoughts.

4. Encouraging curiosity Entrepreneurs and their employees constantly should ask "what if..." to take a "maybe we could..." attitude. Doing so allows them to break out of assumptions that limit creativity. This attitude opens conversations and leads to several options and solutions to problems.

5. Creating a change of scenery The physical environment in which people work has an impact on their level of creativity. Transforming a typical office space, even one with cubicles, into a haven of creativity does not have to be difficult or expensive. Entrepreneurs can still stimulate creativity by starting a meeting with some type of short, fun exercise designed to encourage participants to think creatively. As mentioned before, play is a good way to learn and to create a good atmosphere within the team.

6. Viewing problems as challenges Every problem offers the opportunity for innovation. Entrepreneurs who allow employees to dump all of their problems on their desks to be fixed do nothing to develop creativity or innovation within those employees. It is important to remember that people have different ways of tackling a problem and coming up with solutions.

Figure 13 Problems as challenges

7. Providing creativity training Almost everyone has the capacity to be creative, but developing that capacity requires training. Training takes place through books, seminars, workshops and professional meetings can help staff learn to tap into their creative capacity.

8. Providing support Entrepreneurs must give employees the tools and the resources they need to be creative. One of the most valuable resources is time. Entrepreneurs should remember that creativity often requires non-work phases and allowing employees the time to daydream (within reason) is an important part of the creative process.

9. Developing a procedure for capturing ideas Workers in every organisation can come up with creative ideas. However, not every organisation is prepared to capture those ideas. Without a system in place, good ideas that could improve business, simply evaporate. Clever entrepreneurs establish processes within their companies that are designed to harvest the results of employees' creativity.

10. Talking with customers Innovative companies take the time to get feedback from customers about how they use the companies' products or services. Feedback helps improve not only the products/services but may also lead to new and interesting ideas. Entrepreneurs most put in place a system to capture this valuable feedback.

11. Looking for uses for your company's products or services in other markets Focusing on the "traditional" uses of a product or service limits creativity and a company's sales. Entrepreneurs can boost sales by finding new applications, often in unexpected places, for their products and services. This is also a good opportunity to think about making products greener.

Figure 14 Rewarding creativity

12. Rewarding creativity Entrepreneurs can encourage creativity by rewarding it when it occurs. Financial rewards can be effective motivators of creative behavior, but non-monetary rewards such as praise, recognition and celebration, usually offer more powerful incentives for creativity.

13. Modeling creative behavior Creativity is "caught" as much as it is "taught". Companies that excel at innovation find that the passion for creativity starts at the top. Entrepreneurs who set examples of creative behavior, taking chances and challenging the status quo will soon find their employees doing the same.

Building a creative environment takes time, but the payoffs can be phenomenal. For your employees to be more creative, you have to create an environment that values their creativity.

Section questions: When you think about your business idea, what about it is creative? What is innovative? In what ways would you like to make a creative environment within your business?

2.5 INTELLECTUAL PROPERTY

Once entrepreneurs come up with innovative ideas, their immediate concern should be to protect it from unauthorized use. Entrepreneurs must understand to put patents, trademarks, and copyrights to work for them.

Patents A patent is a grant to the inventor of a product, giving three exclusive rights to make, use, or sell the invention in this country for 20 years from the date of filing the patent application. After 20 years the patent expires and cannot be renewed.

Trademarks A trademark is any distinctive word, phrase, symbol, design, name, logo, slogan, or trade dress that a company uses to identify the origin of a product or to distinguish it from goods on the market. A trademark serves as company's "signature" in the marketplace.

Figure 15 Nescafé is a registered trademark and brand of Nestlé

Copyrights A copyright is an exclusive right that protects the creators of original works if authorship such as literary, dramatic, musical, and artistic works. The internationally recognized symbol "©" denotes a copyrighted work.

Laws on intellectual property rights in Myanmar (as with anywhere) can change. Make sure you research the current statues and laws regarding this issue.

Section questions: Do you think intellectual property rights are important? Why? Do you know what the laws are in Myanmar for copyrights? Where would you go to find out that information?

CHAPTER 3

BUSINESS PLAN FORMAT

3.1 BUSINESS PLAN FORMAT (COMPLETE VERSION)

(Zimmerer and Scarborough p. 153–156)

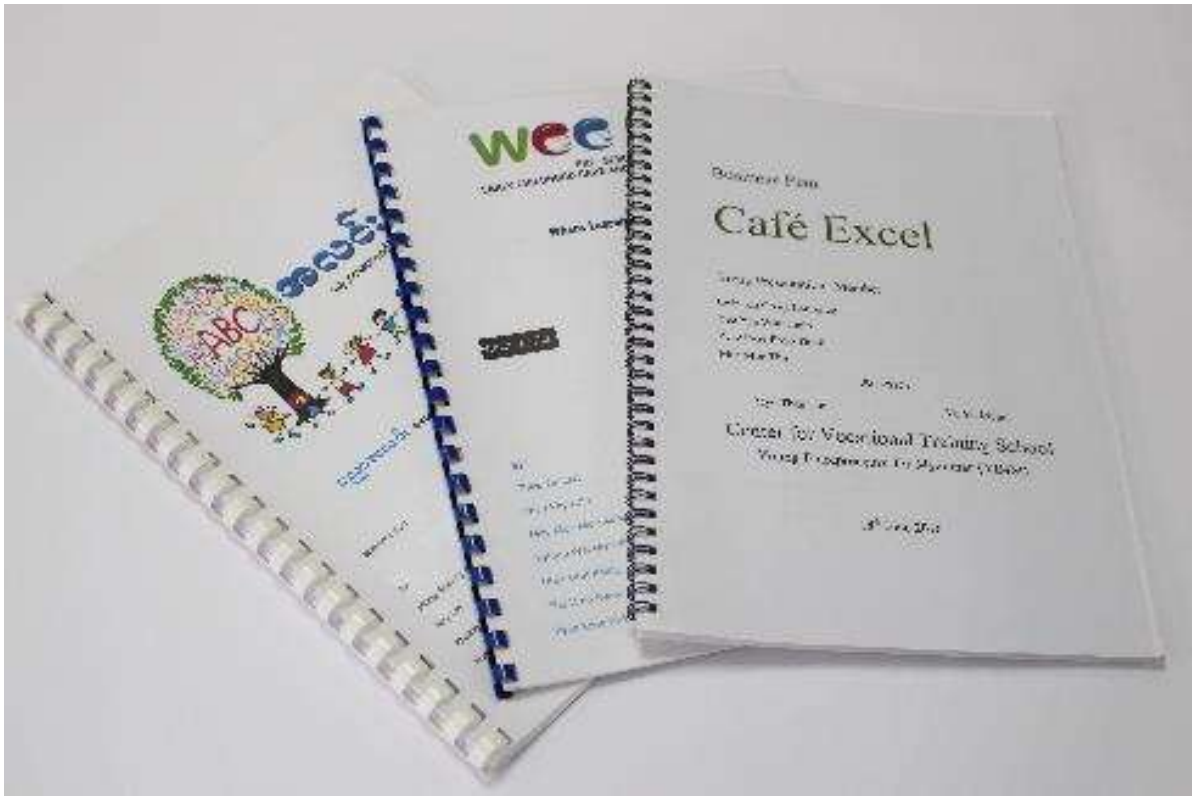


Figure 16 Submitted YE4M business plans

Below provides you with outline of the business plan that you will be using in this course. While businesses have different needs from one another, this is an opportunity for you to experience the steps involved in writing an entire plan.

I. Executive Summary (not to exceed two pages)

A. Company name, address, and phone number
B. Name, address, and phone number of all key people
C. Brief description of the business, its products and services, and the customer problems they solve
D. Brief overview of the market for your products and services
E. Brief overview of the strategies that will make your firm a success
F. Brief description of the managerial and technical experience of key people
G. Brief statement of the financial request and how the money will be used

H. Charts or tables showing highlights of financial forecasts

II. Vision and Mission Statement:

A. Entrepreneur's vision for the company
B. Description of "What business are we in?"
C. Values and principles on which the business stands
D. What makes the business unique? What is the source of its competitive advantage?

III. Company History (for existing businesses only)

A. Company founding
B. Financial and operational highlights
C. Significant achievements

IV. Business and Industry Profile

A. Industry analysis

1. Industry background and overview
2. Significant trends
3. Growth rate
4. Key success factors in the industry

B. Outlook for the future stages of growth (start-up, growth, maturity)
C. Company goals and objectives

1. Operational Goal
2. Financial Goal
3. Others

V. Business Strategy

A. Desired image and position in market

B. SWOT analysis

1. Strengths
2. Weaknesses
3. Opportunities
4. Threats

C. Competitive strategy

1. Cost leadership
2. Differentiation
3. Focus

VI. Company Products and Services

A. Description

1. Product or service features
2. Customer benefits
3. Warranties and guarantees
4. Uniqueness

B. Patent or trademark protection
C. Description of production process (if applicable)

1. Raw materials
2. Costs
3. Key suppliers

D. Future product or service offerings

VII. Marketing Strategy

A. Target market

1. Complete demographic profile
2. Other significant customer characteristics

B. Customers' motivation to buy

C. Market size and trends

1. How large is the market?
2. Is it growing or shrinking? How fast?

D. Advertising and promotion

1. Media used—reader, viewer, listener profiles
2. Media costs
3. Frequency of usage
4. Plans for generating publicity

E. Pricing

1. Cost structure
   a. Fixed
   b. Variable

2. Desired image in market
3. Comparison against competitors' prices

F. Distribution strategy

1. Channels of distribution used
2. Sales techniques and incentives

VIII. Location and Layout

A. Location
   1. Demographic analysis of location versus target customer profile
   2. Traffic count
   3. Lease/ rental rates
   4. Labor needs and supply
   5. Wage rates

B. Layout
   1. Size requirements

2. Ergonomic issues
3. Layout plan (suitable for an Appendix)

Figure 17 YE4M business plan presentation December 2015

IX. Competitor Analysis

A. Existing competitors
   1. Who are they? Create a competitive profile matrix.
   2. Strengths
   3. Weaknesses

B. Potential competitors : companies that might enter the market
   1. Who are they?
   2. Impact on your business if they enter

X. Description of Management Team

A. Key managers and employees

1. Their backgrounds

2. Experience, skills, and know-how they bring to the company

B. Resumes of key managers and employees (suitable for an Appendix)

XI. Part of Operation

A. Form of ownership chosen and reasoning
B. Company structure (organisation chart)
C. Decision-making authority
D. Compensation and benefits packages

XII. Financial Forecasts (suitable for an Appendix)

A. Financial statement
   1 Income statement
   2 Balance sheet
   3. Cash flow statement

B. Break-even analysis
C. Ratio analysis with comparison to industry standards (most applicable to existing businesses)

Figure 18 YE4M business plan presentation March 2017

XIII. Loan or Investment Proposal

A. Amount requested
B. Purpose and uses of funds
C. Repayment or "cash-out" Schedule (exit strategy)
D. Timetable for implementing plan and launching the business

XIV. Appendices

Supporting documentation, including market research, financial statement, organisation charts, resumes, and other items.

CHAPTER 4

STRATEGIC PLANNING

MISSION, VALUES & COMPETITIVE ADVANTAGE
PESTEL ANALYSIS
MICHAEL PORTER'S FIVE COMPETITIVE FORCES

4.1 MISSION, VALUES & COMPETITIVE ADVANTAGE

The strategic management process (Bishop and Crooks p. 173–175; Longenecker et al p. 511–513) The strategic management process (Bishop and Crooks p. 173–175; Longenecker et al p. 511–513)

Strategic planning is thinking about what you want to do, where you want the business to go (growth) and how you will get there. Entrepreneurs probably have a feeling about all of this when they start but writing it down and thinking it through is very important. Strategic planning is often thought of as something for big businesses, but it is also very important for entrepreneurs starting a small company. Planning is fundamental to laying the groundwork for your business, helping you through the startup and future phases. Obviously, things change over time, but the clarity that strategic planning brings is necessary.

A business plan forces you through the steps of strategic planning because it requires you to do research, think about what you want to do, where you want your business to go and maps how you will get there. Researching the business environment, you are entering (the competition, the market, the economy, the laws and regulations just to name a few) is an on-going process, but you will need to know the basics for the YE4M business plan. Strategic planning also helps you think about your business' strengths, where you need to improve and what opportunities are around you.

Within the planning process, you have what is called strategic management. This is the collection of goals, objectives and tactics you will use to achieve what you want. Strategic management is a continuous process that consists of nine steps which are discussed in this section (4.1). Each step discussed below corresponds to an aspect of the YE4M business plan you will be working on during this course.

Step 1: Develop a clear vision and translate it into a meaningful mission statement (Zimmerer and Scarborough p. 90–91)

Section II of the YE4M business plan asks for a vision and a mission statement. These two statements will help clarify to you and your staff what you plan to do both in the short and long term. The vision statement explains the driving idea of your business and where you want go (growth). It draws upon the core values—values are your guiding principles, the "we should do this" and the "we should not do this".

Figure 19 Cycle of vision to action

Some basics of a vision statement are:

— It can be as short as one sentence or as long as a paragraph
— It should be written clearly
— It should be written in the present tense
— Writing the statement should be a creative process
— You can dream big in the statement but focus on your success

To write a vision statement, begin by writing down your core values in 4–5 sentences. After you have thought about the values, ask yourself some key questions such as:

— What do I do at the moment to align with these values?
— What will I do in the next five and ten years to stay aligned with these values?

Once these questions are answered, try to answer these sets of questions:

— What problems does my business hope to solve?
— What does my business want to achieve?
— Who is the target customer base and where do I find them?

Once these questions are answered, think about what success will mean if you are able to accomplish what is on your list. The answer to how you will achieve what you want over the next five to ten years while sticking to your values is your vision statement.

Figure 20 Developing a clear vision to translate into a meaningful mission statement

Values + what you want to achieve over time + who is the customer + what problems you will solve = vision statement

A mission statement describes what your business does and why it exists. The mission statement should be between 3–5 sentences and should be clearly written. The statement is a way to distinguish your business from your competitors and will help you shape your brand identity later on. It will take some time to get the sentences right, so be patient in the process.

To write a mission statement, start by asking yourself the following questions: (not all of the questions will apply to you)

— Why are you in business?
— Who are your customers? What can you do for them?
— What image of your business do you want to convey?
— What is the nature of your products/services?
— What level of service do you provide? (best, most convenient, etc.)
— What roles do you and your employee play?
— What kind of relationships will you maintain with suppliers?
— How do you differ from your competitors?

The questions above require that you think about several aspects of your business. To

get a better idea of what a mission statement entails, here is an example from the international outdoor clothing brand Patagonia:

"Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis"
(http://www.patagonia.com/company-info.html)

The two statements

When writing these two statements for your business plan, it is important to be able to separate them. Remember that the vision is future-based and is meant to inspire you and your employees. It addresses the question of "where do I see the business going?" The mission statement is what your business is doing at present and answers the questions "why does the business exist and what does it do?"

Markets will be discussed in another chapter, but it is worth mentioning here that when asking yourself "who is the customer?" you will need to think about the market you want to enter. Customers are divided into segments—groups of people that you think of as having a characteristic that brings them together (age, gender, location, etc.). When writing your mission statement, think about your customer base. Below are a few examples:

Mass market—all customers are in one large group with no characteristics setting them apart (Ex. Coca-Cola approach)

Niche market—a small group with something specific in common (Ex. Sports tv channel)

Segmented market—groups that have things in common but can be divided into smaller groups within (Ex. a bank that has services geared to different incomes and needs)

Diversified market—two or more different groups that do not have the same needs (Ex. a hygiene company that makes facial soaps for people and industrial soaps for cleaning floors)

Step 2: **Assess the company's strengths and weakness** (Zimmerer and Scarborough p. 93)

Figure 21 YE4M SWOT analysis exercise

Building a successful competitive strategy requires a business to magnify its strengths and overcome or compensate for its weakness.

Strengths—Are positive internal factors that a company can draw on to accomplish its mission, goals, and objectives. They might include special skills or knowledge, a positive experienced sales force, an established base of loyal customers, and many other factors.

Weaknesses—Are negative internal factors that inhibit a company's ability to accomplish its mission, goals, and objectives. A lack of capital, a shortage of skilled workers, the inability to master technology, and inferior location are examples of weaknesses.

An organisation's strengths should originate in the core competencies that are essential to gaining an edge in each of the market segments in which the film competes.

Step 3: Scan the environment for opportunities and threats facing the business (Zimmerer and Scarborough p. 93–96)

Opportunities—Entrepreneurs must turn to the external environment to identify any opportunities and threats that might have a significant impact on the business. Opportunities are positive external options that a firm can exploit to accomplish its mission, goals, and objectives. The key is to focus in the most promising opportunities that fit most closely with the company's strengths and core competencies.

Threats—Negative external forces that inhibit a company's ability to achieve its mission, goals, and objectives are referred to as threats. Threats to the business can take a variety of forms, such as competitors entering the local market, a government mandate regulating a business activity an economic recession, rising interest rates, technological advances making a company's product obsolete, and many others. Although they

cannot control the threats themselves, entrepreneurs must prepare a plan for shielding their businesses from these threats.

The interactions of strengths and weaknesses and opportunities and threats can be most revealing aspects of using a SWOT analysis as part of a strategic plan.

Step 4: Identify the key factors for success (Zimmerer and Scarborough p. 98–99)
Key success factors (KSFs) are the factors that determine a company's ability to succeed in an industry. You will see that in the YE4M business plan, section IV asks that you discuss the KSFs. Every company in an industry must understand the key factors driving the industry. Many of these sources of company advantages are based on cost factors such as manufacturing cost per unit. Some are less tangible and less obvious but equally important, such as superior product quality.
Identifying the KSFs in an industry allows entrepreneurs to determine where they should focus their companies' resources strategically. It is unlikely that a company, even a large one, can excel on every KSF it identifies. Therefore, as they begin to develop their strategies, most entrepreneurs focus on surpassing their rivals on one or two KSFs to build a sustainable competitive edge. As a result, KSFs become the cornerstones of a company's strategy.

Step 5: Analyse the competition (Zimmerer and Scarborough p. 105-106)
Keeping tabs on rivals' movements through competitive intelligence programmes is a vital strategic activity. A competitive intelligence programme is a system put into place that includes defining, gathering information, analysing and sharing the information that you have about the product you want to make, the customers you want to reach and the competitors you face. Business consultant Tim Fulton says "business is like any battlefield. If you want to win the war you have to know who you're up against."
Entrepreneurs should monitor closely the actions of their direct competitors, maintain a solid grasp of where their significant competitors are heading and spend only minimal resources tracking their indirect competitors.

Step 6: Create company goals and objectives (Zimmerer and Scarborough 105–106)
Entrepreneurs must first establish goals and objectives, which give them targets to aim for and provide a basis for evaluating their companies' performance.

Goals—Business goals are the broad, long-range attributes that a business seeks to accomplish, they tend to be general and sometimes even abstract. Goals state the general level of accomplishment sought. Addressing these broad issues will help developing specific, realistic objectives.

Objectives—Business objectives are more specific targets of performance. Company objectives concern profitability, productivity, growth and efficiency. Because some of these objectives might conflict with one another, it is important to prioritize. Well-written objectives have the following characteristics:

— Specific
— Measurable
— Assignable
— Realistic, yet challenging
— Timely

Developing a plan is the responsibility of top management, but executing it falls to managers and employees. Therefore, encouraging them to participate broadens the plan's perspective and increases the motivation to make the plan work.

Step 7: Formulate strategic options and select the appropriate strategies (Zimmerer and Scarborough p. 107–110)

Strategy—As mentioned in the first section, a strategy is a road map of the actions an entrepreneur draws up to achieve a company's mission, goals and objectives. In other words, the mission, goals, and objectives spell out the ends, and the strategy defines the means for reaching them.

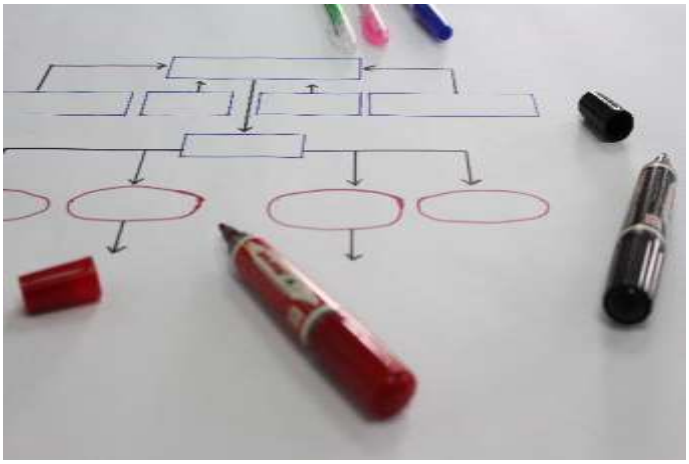


Figure 22 Creating a strategy

A strategy is the master plan that covers all of the major parts of the organisation and ties them together into a unified whole. An entrepreneur must build a sound strategy that uses the company's core competencies and strengths.

Three strategic options—In his classic book Competitive Strategy, Michael Porter defines these strategies; 1. cost leadership, 2. differentiation and 3. focus.

1. Cost leadership A company pursuing a cost leadership strategy strives to be the lower cost producer relative to its competitors in the industry. This strategy works well when buyers are sensitive to price changes, or when competing firms sell the same commodity products and complete on the basis of price.

Not only is a low-cost leader in the best position to defend itself in a price war, but she/he also can use its power to attack competitors with the lowest price in the industry. They also are committed to squeezing unnecessary costs out of their operations. Under the right conditions, a cost leadership strategy executed properly can be an incredibly powerful strategic weapon.

Figure 23 The Chinese smartphone produce Oppo aims to produce quality devices with low prices

The success of these stores proves that companies pursuing a cost leadership strategy must emphasize cost containment decision, from where to locate the company headquarters to which items to stock.

2. Differentiation A company following a differentiation strategy seeks to build customer loyalty by positioning its goods or services in a unique or different fashion. That, in turn, enables the business to command a higher price for its products or services than competitors. There are many ways to create a differentiation strategy, but the key is to be special at something that is important to the customer. In other words, a business strives to be better than its competitors at something customers value.

Figure 24 The Shan Yoe Yar restaurant in Yangon promotes itself as the first Shan-style fine dining restaurant in Myanmar, offering authetic Shan cuisine coupled with a pleasant ambience and quality service

Companies that execute a differentiation strategy successfully can charge premium prices for their products and services, increase their market share and reap the benefits of customer loyalty and retention. To be successful, a business must make its product or service truly different, at least in the eyes of its customers.

The key to a successful differentiation strategy is to build it on a core competency; something a small company is uniquely good at doing in comparison to its competitors. To be successful, a differentiation strategy must create the perception of value in the customer's eyes. Make sure that difference is on the form of a true benefit to the customer.

3. Focus As mentioned earlier, a focused strategy recognises that not all markets are homogeneous. There are many different customer segments, each having different needs, wants and characteristics. Focus strategies depends on a small company's ability to identify the changing needs of its targeted customer group and to develop the skills required to serve them. An entrepreneur must have a clear understanding of how to add value to the product or service for the customer.

A focus strategy is ideally suited to many small businesses, which often lack the resources to reach the overall market. Their goal is to serve their narrow target markets

more effectively and efficiently then the competitors do that pound away at the broad market.

The most successful focus strategies build a competitive edge by concentrating on specific market niches and serving them better than any other competitor can. This strategy depends on creating value for the customer either by being the lowest cost procedure or by differentiating the product or service in a unique fashion but doing it in a narrow target segment. To be worth targeting, a niche must be large enough to be profitable, reasonable, reachable through advertising media, and capable of sustaining a business over time.

Strategy in action The strategies that a small business pursues depend on its competitive advantages in the market segments in which it competes. When a business has a well-defined strategic advantage, it may pursue highly aggressive growth strategies in an attempt to increase its market share.

Step 8: Translate strategic plans into action plans (Zimmerer and Scarborough p. 114–115) Entrepreneurs must convert strategic plans into operating plans. An operating plan provides a detailed description of how teams and other personnel structures work within the business. This plan of action guides their companies on a daily basis and is a visible and active part of the business. Remember that even if you have a sound strategy, without proper implementation, your business will fail.

To make their strategic plans workable, entrepreneurs should divide them into projects, carefully defining each one by the following:

— Purpose
— Scope
— Contribution
— Resources requirements
— Timing

The greater the level of involvement of those who will implement company's strategy in the process of creating strategy, the more likely it is that the strategy will be successful. Without a team of committed, dedicated employees, a company's strategy, no matter how precisely planned, usually fails.

Step 9: Establish accurate controls (Zimmerer and Scarborough p. 114–117)

Planning without control has little operational value. The plans created in the strategic planning process become the standards against which actual performance is measured. The most commonly used indicators (component that helps you assess how the business is doing) of a company's performance are financial measures; however, judging a company's performance solely on the basis of financial measures can lead to strategic myopia (only seeing a small portion of the bigger picture). Your key performance indicators (KPIs) should mean something to your business, should be easily measured and should help you achieve your goals.

To judge the effectiveness of their strategies many companies develop a balanced scorecard, a set of multidimensional measurements, that are unique to a company. It incorporates both financial and operational measures to give managers a quick yet comprehensive picture of the company's overall performance.

You can find resources online that help develop some indicators. Basic things to keep in mind when developing your indicators are: identify results you expect, identify the numbers your company needs to meet goals and look at percentage change over time. Ideally, a balanced scorecard looks at a business from four important perspectives.

— Customer Perspective
— Internal Business Perspective
— Innovation and Learning Perspective
— Financial Perspective

Section questions: What are the overall goals of your business? What is it you want to accomplish? What are its strengths and weaknesses? If you were to put together a strategic plan, where would you start? Why?

4.2 PESTEL ANALYSIS

(Scarborough p. 375–378)

The key environmental influences that may impact an organisation and its stakeholders can be examined using a PESTEL analysis. PESTEL stands for political, economic, social, technological, environmental and legal. The PESTEL is a tool used to analyse and monitor macro environments which consists of its suppliers, customers, competitors and stakeholders. Below provides some aspects of these environments. This is not a comprehensive list but rather something to get you thinking about what larger issues are important when setting up your business.

Figure 25 PESTEL analysis in YE4M class

Political—Government policies affect the framework in which we do business. Be aware of the stability of the government, the government's involvement in business and tits national economic and development priorities.

Economic—The economic environment is an important influence at local and national level. Consider the overall economic development of the country, the growth (Gross National Product), interest rates for borrowing money and the role of foreign trade.

Socio-cultural—Social and cultural aspects of a country are important to a company. Consider elements such as the literacy rate, level of education, the language and cultural practices in place where you are doing business. There are also demographic aspects that are discussed below.

Technological—The role of technology in society continues to increase. It is important to understand what role technology plays in your market, with your competitors, but also the government's attitudes towards and spending on technology.

Ecological—Businesses need to be aware of the environmental policies in place, such

as regulations on waste disposal, pollution, energy consumption and corporate social responsibility (CSR) issues within the supply chain.

Legal—There are many laws that will affect how you establish and run your business such as: those put into place that cover right and responsibilities, health and safety, data protection issues, environmental considerations, taxes payments or competition law and price fixing.

As mentioned in the socio-cultural section, demographics are important to your business. You need to know about the population you are trying to reach in terms of size, age, geographic distribution, etc.

Section questions: What elements listed in the PESTEL analysis are especially important to consider for your business? Why? Do you find any of them confusing or irrelevant? Do you think anything is missing?

4.3 **MICHAEL PORTER'S** FIVE COMPETITIVE FORCES

(Scarborough p. 161–164)

Section IX Competitor Analysis of the YE4M business plan requires that you analyse the competition you will be facing on the market. There are many ways of researching and analysing your competition. Strategy expert Michael Porter developed the five competitive forces model to analyse the nature and intensity of competition in a given industry in terms of five major forces. The forces are:

— Intensity of rivalry
— Bargaining power of customers
— Bargaining power of suppliers,
— Threats of new entrants
— Threats of substitute products and services

Together these forces directly affect the profit potential, or long-term return on investment, available to businesses operating in the industry.

Intensity of rivalry Intense rivalry means that the competitors continually compete for

position by using tactics such as price competition, advertising battles, product introductions and increased customer service or warranties. All these tactics have the ability to lower profits for the various competitors in the industry either by lowering the process that can be charged or by raising the costs of doing business.

Bargaining power of customers The bargaining power of customers refers to how much customers are able to force prices down, or bargain for higher quality or more service at the same price. Through these tactics they can play competitors against each other. Customers tend to be powerful when (1) the quantities they purchase are large in proportion to a seller's total sales, (2) when the products or services represent a significant portion of a customer's cost, or (3) when the items are standard in the supplier industry.

Bargaining power of suppliers The bargaining power of suppliers is the extent to which suppliers can exert power over businesses in an industry by threatening to raise their prices or reduce the quality of their goods and services. Suppliers tend to be powerful when they are only a few of them selling to many businesses in an industry, when these are no substitutes for their products/services or when there products or services are critical to the buyers' business. The greater the bargaining power of suppliers, the lower the profit potential for businesses operating in the industry.

Threat of new entrants The threat of new entrants is the extent to which new competitors can enter the same product or service market. New entrants bring added capacity and possibly substantial resources. The results are price wars and/or increases in costs for existing businesses. The threat of entry depends on how hard it is to break into the market. High barriers to entry exist when large capital investments are required to start a business or when economies of scale make it difficult for a new entrant to start small and gradually build up volume.

Threat of substitute products or services The threat of substitute products or services is the extent to which businesses in other industries offer substitute products for an established product line. The availability of substitute products constraints the prices the business can charge. If business increases price, it might encourage customers to switch to a substitute. Thus the availability of substitute products or services tends to redact the profit potential in the industry.

Section questions: How will you go about analysing the competitive forces faced by your business? To you know where to start? Are any of the competitive forces mentioned above not relevant to you?

CHAPTER 5

BUSINESS ORGANISATION STRUCTURE

STARTING A BUSINESS VENTURE
FINANCIAL RESOURCES TO FORM A BUSINESS
LEGAL STRUCTURE OF BUSINESS ORGANISATIONS
ORGANISATIONAL STRUCTURE
BUILDING BUSINESS TEAM
TEAM DEVELOPMENT PROCESS
FOSTERING A TEAM SPIRIT
EVALUATING TEAM PERFORMANCE
PAY, PERFORMANCE AND OTHER INCENTIVES

5.1 STARTING A BUSINESS VENTURE

There are several ways an entrepreneur can become a business owner. These include:

— starting a new business from scratch
— buying an existing business
— buying a franchise.

Starting a new business (Zimmerer and Scarborough and Scarborough p. 162–164)
To start a new business from scratch is the most common way to become an entrepreneur. This is exciting because the entrepreneur sees a need for a product or service that has not been filled before and then sees the idea or dream become a reality. The advantage of starting a business is the ability to develop and design the business in the entrepreneur's own way. The entrepreneur is solely responsible for its success.

A potential disadvantage is the long time it can take to get the business off the ground and make it profitable. Startup costs are often also high. The uphill battle is caused by the lack of established market (customers) and the many mistakes made by someone new to the business. Moreover, no matter how much planning is done, a start–up is risky; there is no guarantee that the new idea will work.

Buy an existing business (Zimmerer and Scarborough p. 221–228)
Because of the long start-up time and the inevitable mistakes, some entrepreneurs prefer to reduce risk by purchasing an existing business.

This offers the advantage of a shorter time to get started and an existing track record. The entrepreneur may get a bargain price if the owner wishes to retire or has other family considerations. Moreover, a new business may overwhelm an entrepreneur with the amount of work to be done and procedures to be determined. An established business already has filing systems, a payroll and tax system and other operating procedures.

Potential disadvantages are the need to pay for what the owner believes the company is worth (you may not agree) and the possible bad reputation associated with the business. In addition, the company may have internal problems with staff and procedures or outdated technology, which may be why the business is for sale.

Buy a franchise (Zimmerer and Scarborough p. 189–191) Franchising is perhaps the most rapidly growing path to entrepreneurship and is picking up in Myanamr. It is an arrangement by which the owner of a product or service allows others to purchase the right to distribute the product or service with help from the owner. The franchisee (the one starting the new business) invests her/his money and owns the business but does not have to develop a new product, create a new company or test the market. The franchisee typically pays a flat fee plus a percentage of gross sales.

Figure 26 Grab&Go shops are run as a franchise with a mixture of direct ownership and franchising

The powerful advantage of a franchise is that management help is provided by the owner. The franchisor (owner) also provides an established name and national advertising to stimulate demand for the product or service. Potential disadvantages are the lack of control that occurs when franchisors want every business managed in exactly the same way. In some cases, franchisors require that franchise owners use certain contractors or suppliers that may cost more than others. In addition, franchises can be very expensive, and the high start-up costs are followed with monthly payments to the franchisor that can run from 2% to 15% of sales.

Section questions: What type of ownership do you intend on using for your business? Why? Would you consider another type?

5.2 FINANCIAL RESOURCES TO FORM A BUSINESS

A crucial concern for entrepreneurs is the financing of the business and knowing where and how you will secure funds is a big part of the planning process. Section XIII of the YE4M business plan asks you to explain the loans and investments that will go into your company.

An investment is usually needed to acquire labor and raw materials and perhaps a building and equipment. The primary source of this money is the entrepreneurs' own resources, but the financial decision initially involves two options: whether to obtain loans that must be repaid (debt) or whether to share ownership (equity). Debt financing (Scarborough p. 459)

Borrowing money that has to be repaid at a later date in order to start a business is debt financing. One common source of debt financing for a start-up is to borrow from family and friends. Another common source is a bank loan. Sometimes entrepreneurs can obtain money from a finance company, wealthy individuals, or potential customers. Loans from banks and finance companies are good because they provide the capital needed to start the business, but they can come with high interest rates and may require entrepreneurs to pay the money back quickly.

Figure 27 Equity financing

Equity financing (Scarborough p. 456–457)

Any money invested by owners or by those who purchase stocks in a company is considered equity funds. Equity financing consists of funds that are invested in exchange for ownership in the company. This can be a good way of getting money from several sources and involving more people in your business. The bad side is that others now have decision-making power in your business, which can cause problems.

Section questions: Have you thought about the financing for your business yet? Where will you obtain the necessary funds to begin? Is this the best option?

5.3 LEGAL STRUCTURE OF BUSINESS ORGANISATIONS

Before entrepreneurs found a business, and perhaps again as it expands, they must choose an appropriate legal structure for the company. It is important to be certified, legal and follow the regulations required by the government. Section XI Part of Operation of the YE4M business plan asks you to describe the form of ownership chosen and the reason why. Deciding upon your legal structure will define what types of certificates you need. The three basic choices are corporation/limited company, proprietorship and partnership.

Corporation (Zimmerer and Scarborough p. 163–165; p. 174–182) A corporation is a company or group of people authorized to act as a single legal entity. In some countries this is the easiest form of business to establish because the corporation exists as a separate thing and has most of the legal rights of an individual. A limited company (Ltd.) is a type of incorporated business. As a separate legal entity, the limited company is liable for its actions and must pay taxes on its income. The corporation has a legal life of its own; it continues to exist regardless of whether the owners live or die. And the corporation, not the owners, is sued in the case of liability.

Figure 28 Thet Tun Latt is a YE4M graduate and one
of the founders of the United Solution Engineering, a limited company

The biggest advantage of a corporation is that the owner(s) is not legally responsible to problems associated with the business. The major disadvantage of the corporation is that it is expensive and complex to do the paperwork required to incorporate the business and to keep the records required by law.

Sole proprietorship (Zimmerer and Scarborough p. 166–174)

Figure 29 Sole proprietorship: Kyinue Way Myanwin is a certified Early Childhood Care and Development teacher and YE4M programme graduate. As a sole proprietor, she is running a pre-school and child-development centre in Thanlyin

A sole proprietorship is defined as an unincorporated business owned by an individual for profit. This form is popular because it is easy to start and has few legal requirements. A proprietor has total ownership and control of the company and can make all decisions without consulting anyone. The owner has unlimited responsibilities and assumes all the risks. Also, financing can be harder to obtain because business success rests on one person's shoulders.

Partnership (Zimmerer and Scarborough p. 166–174) A partnership is an unincorporated business owned by two or more people. Partnerships, like proprietorships, are relatively easy to start. Two friends may reach an agreement to start a coffee shop. To avoid misunderstandings and to make sure the business is well planned, it is wise to draw up and sign a formal partnership agreement with the help of an attorney. No matter how

good of friends you may be, business relationships are different and can be challenging. There needs to be a structured agreement for your partnership. The agreement specifies how partners are to share responsibility and resources and how they will contribute their expertise.

The disadvantages of partnerships are the unlimited liability of the partners and the disagreements that almost always occur among strong-minded people.

Figure 30 The YE4M graduate Thant Zin Oo (second from the left) is the Marketing and Operations Manager of the Deco Art Interior Decoration Group, a business is jointly owned

Section questions:
When reading these options for ownership, which one makes the most sense for your business?

5.4 ORGANISATIONAL STRUCTURE

(Longenecker et. al p. 511–512)

The organisational structure of a business is a clear representation of the roles people are playing in a company. For instance, a business might have an owner, a manager, someone in finance and someone working in marketing. Each of these roles has its responsibilities and ways of making decisions or asking for permission and guidance.

It's easy to think that a small business as not needing an organisational structure when staff is small and everyone knows what their job entails. However, it is important for communication, for decision-making and for how you will handle growth within your company.

Section XI Part of Operation of the YE4M business plan asks for a clear look at your organisational structure. You must describe who is the owner and why that person is in this position. You will also need to create an organisational chart that shows the company structure and decision-making process. An organisational chart is a diagram that shows the structure of how relationships are between positions/jobs. Here is an example of how a chart might evolve for a small business:

For the YE4M business plan you will also need to explain decision-making authority based on this chart. Below is an example of a simplified organisational chart:

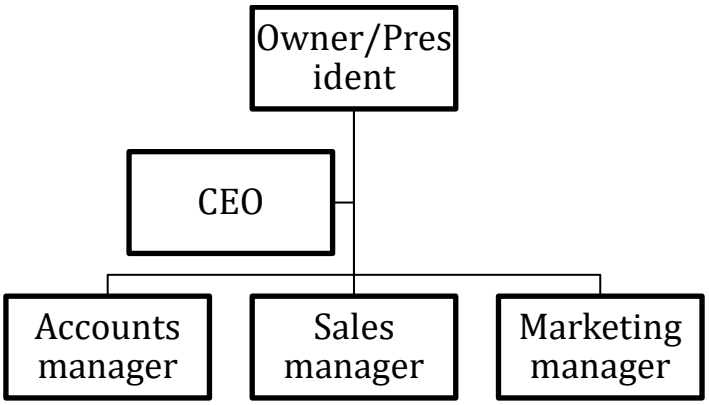


Figure 31 Basic organisational chart

These charts are a simple representation of how decision-making and reporting occur within the company. The chart should not be overloaded with words or with descriptions.

Section questions: What will your organisational chart look like? Remember, it does not have to be elaborate or complex. It also does not need to be traditionally hierarchical. All of the team members could be on the same line if they are all owners and have equal decision-making power.

5.5 BUILDING A BUSINESS TEAM

(Logenecker p. 197–200)

Within your organisational structure, you will have business teams. A business team

consists of the owner and all the other people working in the company. In small businesses, this might be two or three people. In large companies, there might be several teams designated for different things (such as a sales team and a communications team).

Teams are collections of people who must rely on group collaboration if each member is to experience optimum success. An effective team is described as "any group of people who must significantly relate with each other in order to accomplish shared objectives".

There are many elements to a successful team including (but not limited to):

— There needs to be clear team goals
— All members need to be committed
— Communication should be informal
— Their involvement should be voluntary

The right blend (Taken from Wikipedia entry Team Role Inventories) Teams are comprised of many different types of people. Meredith Belbin, created the team inventory scheme to describe the many personality types and jobs that a team might have. Getting the right blend of these team members is important. These personality types are:

Chairman is a calm, self-confident, controlled person coordinating (not imposing) and operating through others.

Shaper is generally high-strung, outgoing and dynamic. He or she is committed to the task, may be aggressive and challenging, but will always promote activity.

Plant is creative, imaginative, thoughtful and thought-provoking person who solves difficult problems.

Monitor evaluator—a sober, unemotional prudent sort of person who analytically criticizes others' ideas and brings the group down to earth.

Resource investigator—tends to be an extrovert, enthusiastic and communicative person. She/he is not a new ideas person but tends to pick up others ideas and adds to them. She/he is usually a social type of person who often acts as a bridge to the outside world.

Company worker conservative and predictable person who turns general ideas into specifics. She/he is practical and efficient, tends to be an administrator handling the scheduling aspects.

Team worker concerned with the relationships within the group, and is supportive and tends to defuse potential conflict situations. She/he will promote team spirit.

Finisher is painstakingly orderly, conscientious and anxious hence unpopular, but a necessary individual. She/he is the perfectionist and progress chaser ensuring that timetables are met.

Specialist has a professional expertise in project work. She/he will be disciplined, reliable, conservative and efficient and be able to turn ideas into practical actions.

Different team roles indicate different types of behavior, which are not necessarily linked to job and task skills. Consequently, for a team to be high performing, team role should be balanced. Within a team, there should be a range of team roles. Members can adopt two or more roles if necessary.

Section questions: Have you thought about building your business team? Who will be involved? Small businesses have fewer and smaller teams. In case of your business, what is the ideal number of people on a team? What personality traits listed above should they exhibit? Why?

5.6 TEAM DEVELOPMENT PROCESS

(Taken from Wikipedia entry Tuckman's stages of group development)

Groups of whatever type do not come into existence fully formed. They grow and mature

and sometimes dissolve. It is important also that they get along. It is possible to identify the stages of development through which a group goes before it becomes fully efficient and effective. B W Tuckman has formulated four stages through which groups proceed;

The forming stage is when the teams meets and learns about the tasks and challenges they will have. Usually people are independent during this time and are just getting to know what it is like to work together.

In the storming stage is when clashes and conflicts can arise due to difference of opinion. These conflicts can however be constructive in that they lead to workable and acceptable procedures that enable the task to be attitude, behavior etc will be challenged and rejected. Some individuals will strive for or attempt to impose leadership on the group. If successful, this stage will have forged a stronger team with greater knowledge of each other and their objectives.

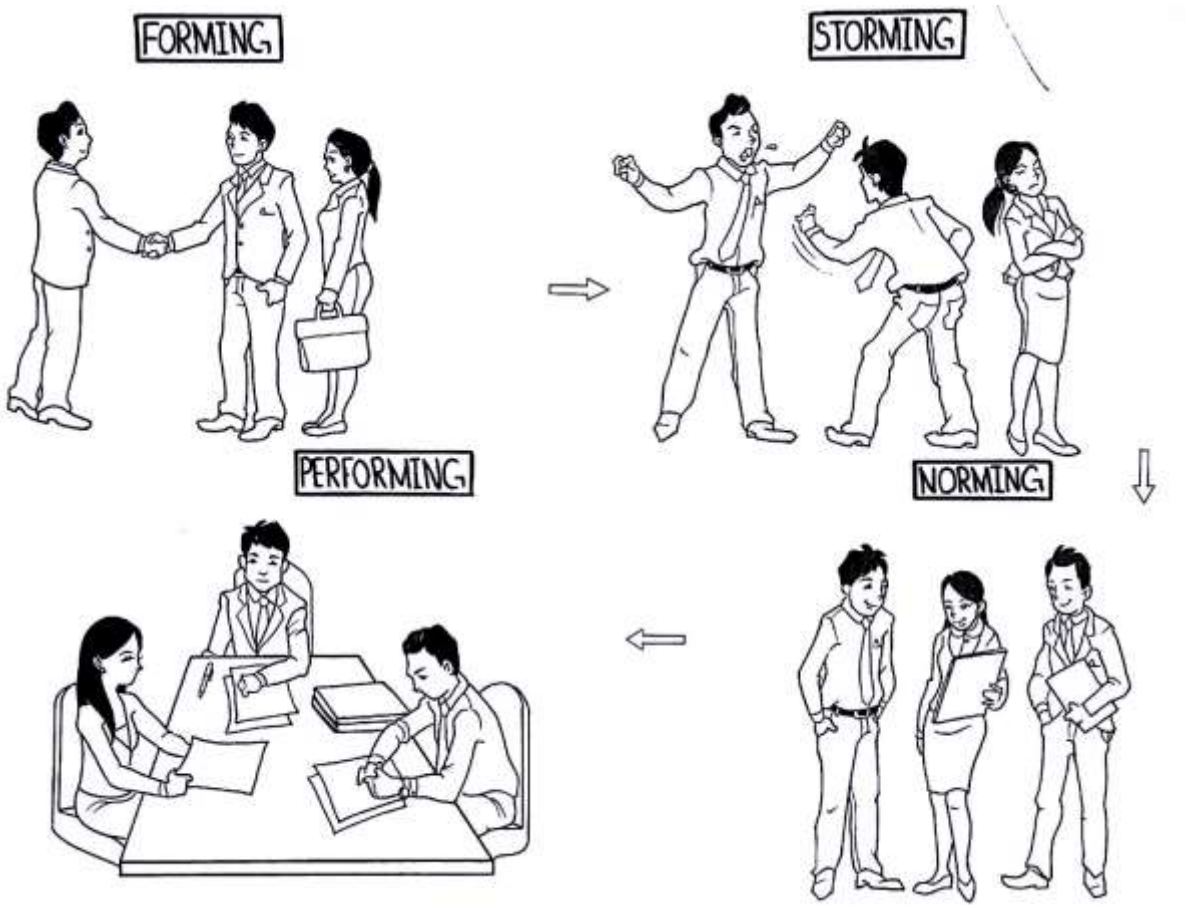


Figure 32 Forming a team

The norming stage is when things settle and the team starts to work well together. Norms

are shared views, beliefs and expectations about forms and standards of behavior. Members experiment and test group reaction as norms become established. Typically, the norming stage will establish behavior patterns, level of trust and openness, individual roles and how the group will take decisions.

The final stage is called the performing stage. Here the group is fully functioning, and the emphasis is now on reaching the team goals, rather than working on team process. Relationships are settled, and team members are likely to build loyalty towards each other. The team is able to manage more tasks, and cope with greater change.

Section questions: Have you ever been part of a team in the workplace or in school? When you think back to these experiences, can you remember moments when you had conflict? What did you do to resolve them? Was your team eventually able to work well together? What would you do in the workplace if you faced difficulties with your team?

5.7 FOSTERING A TEAM SPIRIT

(Scarborough p. 54)

The stages mentioned do not just happen. Teams and their leaders need to work together to ensure that things go smoothly and that goals are met. One of the most important factors to getting work done is a strong team spirit. There are a number of ways to encourage and strengthen a team.

First, it is important to allow the team to develop. This implies the need for high levels of interaction to be encouraged between members, and for the clarification of objectives. Second, think through who is best suited for the team in terms of skills (conceptual, interpersonal, and technical) and whose personality characteristics complement and balance one another.

Third, there are a range of techniques that can be used for team building such as group dynamics exercises, activities outside of the office and formal processes that evaluate the performance of teams and team members as a basis for feedback and for improvement. Fourth, it is important to remember that team leadership plays great role in creating success of a team. The leadership style must be compact with the job nature

and their followers.

Finally, it is important to observe the team culture, particularly the longer term, staffing policies and decisions on recruitment, development, training, selection, appraisal and reward are of central importance.

Section questions: What does team spirit mean to you? Why do you think it is important? What sort of things would you want to do to help your team feel motivated and interested in their work?

5.8 EVALUATING TEAM PERFORMANCE

(Brounstein section on Evaluating Team Performance)

It is important to give your team feedback so that they can adjust and improve their work. An evaluation is a process where a supervisor or manager looks at the different elements of an individual/team's performance to see what is good and what needs to change. Evaluating team performance involves measuring:

— Effectiveness—the degree to which goals are accomplished
— Efficiency—the use of resources in attaining goals
— Team member satisfaction—the motivational climate

In circumstances, where there is some physical or countable task, the measurement is relatively straightforward and there are certain elements, that can be used to evaluate the team's performance against the standard. These includes:

— The quantity of work performed
— The quality of work performed
— The association of work performed with time allowed

You can evaluate the performance of the team during or after a project. There are different tools to use such as questionnaires, interviews and observations by the supervisor or manager. The answers that you get from the different tools can be compared with personal evaluations of staff. It is tricky to ask peers to assess one another, but it can be very helpful to hear how different team members view their work

as a group. However, there are drawbacks to these methods including:

- Observing team members' behavior is very time-consuming and requires a degree of participant observation, which may not be available
- Interview data is qualitative and unless obtained in a very structured way does not lend itself to comparison
- Many questionnaires purport to measure team performance. However, these assume equality of importance of the items measuring team performance, regardless of the purpose or activities of the team in question

Section questions: What do you think about team evaluations? Can you see any benefits to including this in your business? Why would you not include evaluations?

5.9 PAY, PERFORMANCE AND OTHER INCENTIVES

(Scarborough p. 569–570)

The YE4M business plan asks you to think about compensation and benefit packages (section XI Part of Operation). This might be challenging for a small business that is low on funds. While there are other ways to motivate staff (see Chapter 7), it is important to remember that people are motivated in direct proportion to the value that they feel is being placed upon them in the workplace.

Money is one of the most important aspect of any reward system, but if there are wide ranges in the pay structure it can actually be demotivating. If team members feel that they are not being paid as well as staff in other organisation, or if they feel that certain people are overpaid, team building can suffer.

Money, however, is not the only effective reward. There are a number of non-monetary rewards that can be offered. This list could be longer, but the following types of rewards are most often seen as very significant components of a reward system:

- Private office
- Decorations for the office
- Company car and/or parking space

— Further educational reimbursement
— Share purchase options
— Health insurance

Other incentives The use of cash incentives to reward outstanding performance is very desirable but should be used only when there is a team consensus that is merited. Team incentive rewards are even more effective motivators. However, few organisations have the procedures, or the special discretionary funds set aside, to implement such incentive plans. Therefore, public recognition and outstanding merit reviews may be the only routes open to the project manager. A good rule for project managers is to give the team all of the glory possible during the life cycle of the project as there may be little left at the end.

Group or team incentive schemes offer a bonus to the team where they have achieved or excelled targets. This type of scheme may be appropriate for tasks where:

— Individual contributions cannot easily be determined
— Team members have little control over their individual output because tasks depend on each other
— Team building is required

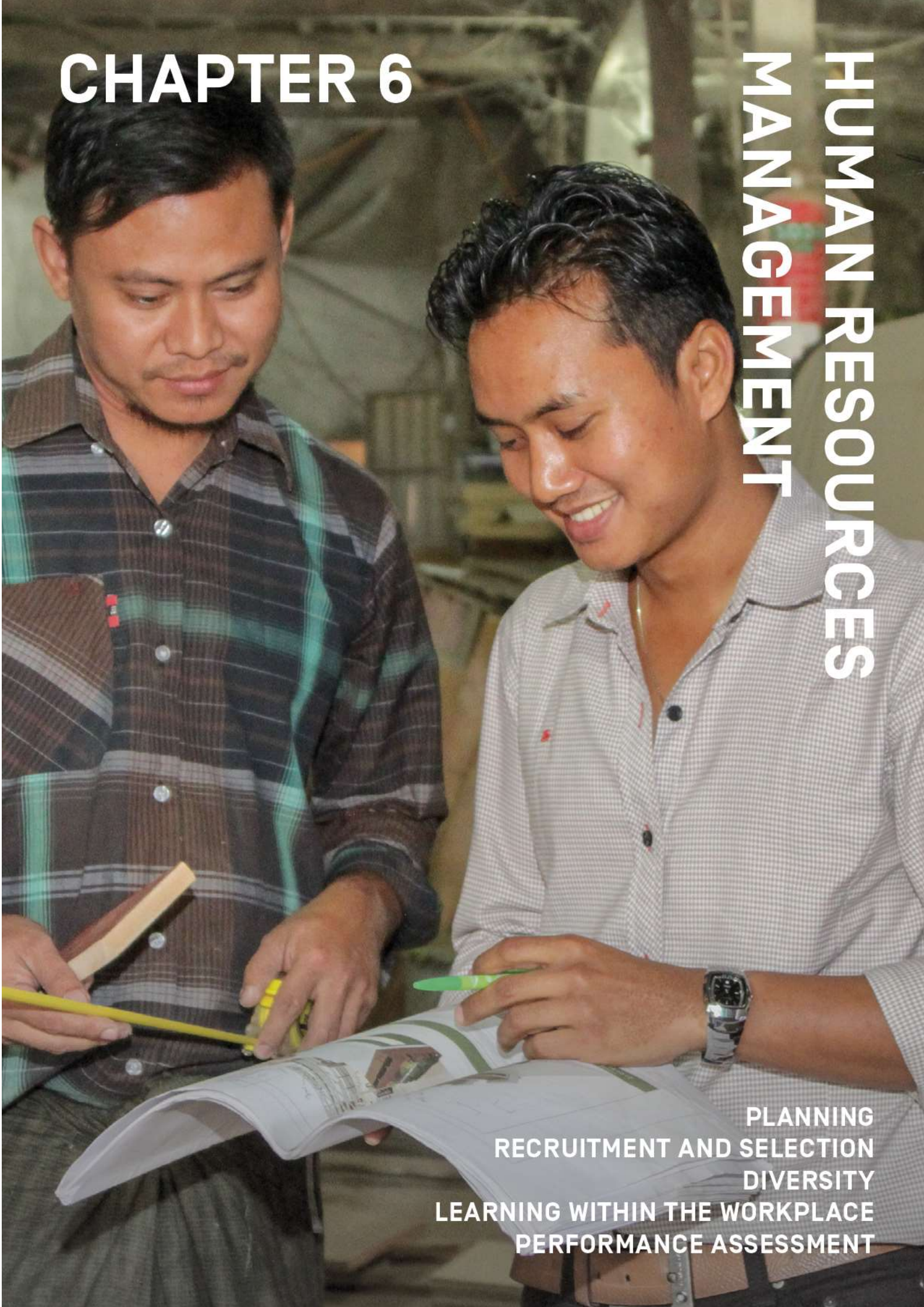
Long-term and large group incentive (gain sharing) plans may be applied factory wide or organisation wide and tie pay to performance by giving employees additional payment when there has been an increase in profits or a decrease in costs to the organisation. Incentives are based on a comparison of present profits or costs against historical cost accounting data.

Value-added schemes work where increases in productivity are not necessarily the result of employees individually or collectively working harder (work intensification) but are typically improvements because employees work more smartly. The members of the team have identified the means to perform tasks efficiently without increasing physical effort. The benefit can be shared between employers and employees on an agreed formula.

Companies are increasingly attempting to relate pay to performance, although the methods used vary widely. Examples include piecework (payment by result—PBR),

bonus schemes and commissions. PBR and bonus schemes are suitable for rewarding teams but commission is a reward paid on the performance of an individual.

Section questions: What incentives are you prepared to offer your team? Why do you think these incentives will help with team building and satisfaction?



CHAPTER 6

HUMAN RESOURCES MANAGEMENT

PLANNING
RECRUITMENT AND SELECTION
DIVERSITY
LEARNING WITHIN THE WORKPLACE
PERFORMANCE ASSESSMENT

6.1 PLANNING

(Longenecker et al. p. 530–531)

Human resource (HR) management is the strategic approach to managing people to maximise their motivation and contribute towards meeting the organisation's objectives and goals.

There are several parts to HR management. There is the planning, recruitment of staff, the performance management, training and development, and staff relations and appraisals.

Before deciding to hire someone, a good amount of thought and analysis needs to occur. In terms of staff, a business plan should include ideas on how the business is starting, how the business can grow and how quickly growth will occur. Businesses also need to know when it is financially possible to hire people. Analysis of the positions needed and the financial feasible of hiring those people is a part of strategic planning (Chapter 4). Your YE4M business plan will include the size of your team and the growth you will see in the future.

The next sections will take you through the process of identifying and hiring staff.

Section questions: How many staff members do you need to start your business? How many employees are necessary for the first year of operation? What are the components that will dictate how many people you want to hire?

6.2 RECRUITMENT AND SELECTION

(Bishop and Crooks p. 256–260)

Employees are critical to the success of most organisations. It is therefore vital to ensure that the correct staff are selected, who have the appropriate skills and fit well into the social structure of the organisation.

Figure 33 Recruitment process for the YE4M programme

Recruitment and selection are part of the same process, but they are slightly different. Recruitment involves attracting a range of suitable candidates for a given role within the organisation. Selection processes are aimed at choosing the most suitable candidate for the specified position. The aim of selection is to identify, from those coming forward, the individuals most likely to fulfill the requirements of the organisation.

The overall aim of the recruitment and selection process is to obtain the quantity and quality of employees required to fulfill the objectives of the organisation. It is the process of contacting the labor market (both inside and outside the organisation), communicating opportunities and information and generating interest.

If an unsuitable person is hired for a role, they are likely to be discontent, will be unlikely to give of their best and will be more likely to leave, either voluntarily or be asked to leave.

The consequences of poor recruitment and selection can therefore include:

— high staff turnover
— the high cost of advertising for vacancies
— management time involved in selection and training
— the expense of dismissal

— the negative effects of high staff turnover on general morale and motivation within the organisation
— reduced business opportunities
— Reduced quality of the organisation's products or services, leading to customer dissatisfaction.

The recruitment and selection process Successfully finding the right candidate for a given role tends to require nine different stages, split between recruitment and selection.

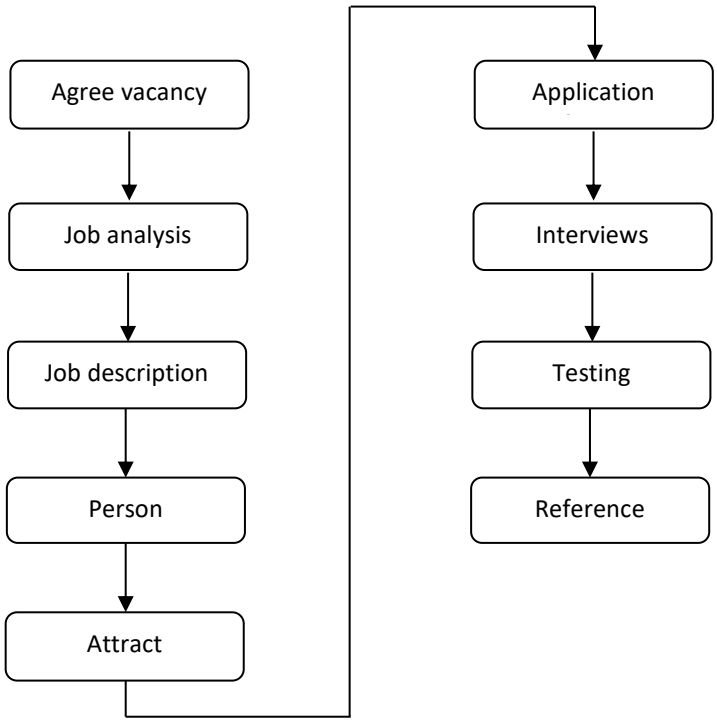


Figure 34 The recruitment and selection process

Identifying a vacancy When an employee leaves an organisation, the position they leave presents an opportunity to the business to either reassess the requirements of the job, or to consider restructuring. The organisation should look at the role in more detail to identify the purpose and the need. This will determine whether you need to replace the person or simply redistribute tasks. It can also determine whether there are alternatives to the position such as reducing hours.

Job analysis The process of job analysis starts with a detailed study and description of the tasks that make up the job.

These include:

Job description (Bishop and Crooks p. 31–32) Once management fully understands the role that they wish to fill, they can prepare a job description. A job description is a broad statement of the purpose, scope duties and responsibilities of the job. It is the foundation of the job advertisement. It also helps select the right candidate and helps in writing up contracts.

A job description includes the title, purpose of the job, the position in the company, the salary you will pay and the main duties.

Person specification (www-users.york.ac.uk) Once the job description is written, management can decide upon the skills and qualities that the jobholder should ideally have. Prospective candidates can then be compared to this specification as part of the selection process.

Alec Rodgers devised a seven-point to help with the selection process. The questions that he thought were important when selecting an employee are:

1. Special attitudes—what skills and abilities should the candidate have?

2. Circumstances—does the job have any special demands (such as the requirement to work unsociable hours)?

3. Interests—is the person active or social in their personal life? This may be helpful depending on the job.

4. Physical makeup—what is the appropriate personal appearance and level of health required for the job?

5. Disposition—what sort of personality should the ideal candidate have? Do they need to be social, calm in a crisis and/or good under pressure?

6. Attainments—does the ideal candidate need any specific qualifications or achievements for the role?

7. General intelligence—should the ideal candidate be average or above average intelligence for this position?

An example:

REQUIREMENT	ESSENTIAL OR DESIRABLE?
Qualifications	
Professional qualification	Essential
Degree level	Desirable
Experience	
Experience of working in a similar role	Essential
Experience of dealing with clients	Desirable
Skills and competencies	
Excellent communication skills	Essential
Ability to present complex information	Essential
Excellent numerical skills	Essential
Team player	Desirable
Ability to work flexibly	Desirable
Personal attributes	
Self-motivated	Essential
Able to use own initiative	Essential
Attention to detail	Essential
Prepared to learn new skills	Desirable
Other	
Ability to use Microsoft Word and Sage	Essential
Willing to participate in client meetings	Essential

Attracting candidates (Bishop and Crooks p. 11) It is important to remember that the ideal candidate my not exist. It is up to the employer to decide what qualifications are essential and what is up for compromise. This stage involves persuading relevant candidates to apply for the role the organisation wishes to fill.

The first thing to consider when attracting a candidate is whether to recruit externally or use an existing member of staff to fill the role. This could be done via:

- promotion of existing staff
- temporarily transferring staff from another department or office
- closing the job down by sharing out duties and responsibilities among existing staff
- rotating jobs among staff, so that the vacant job is covered by different staff periodically

The advantages of internal and external recruitment include:

INTERNAL	EXTERNAL
— Motivating for employees — Part of career development plan — Know the staff already — Candidate understands work — Save time and money — No induction necessary	— Obtain specialist skills — Inject new blood into company — May create dissatisfaction in existing employees — May cost more (higher wages and recruitment costs)

If the business decides to recruit externally, it must consider two key issues—where to find suitable candidates and how to advertise the job in such a way that it attracts relevant candidates.

Potential sources It is important to know where suitable candidates are likely to be found, in order to make contact with them. Sources could include:

- employment service job centers and agencies
- private recruitment consultants
- career advisory offices

— universities, colleges and schools
— the general public

If the business decides to use private recruitment consultants to source candidates, it would need to carefully consider if the organistion has sufficient internal expertise to find and attract relevant candidates, if it is affordable to use a consultant and how much time it will take.

Advertising (Bishop and Crooks p. 36) The objective of recruitment advertising is to attract the interest of suitable candidates in the vacancy that the organisation wishes to fill.

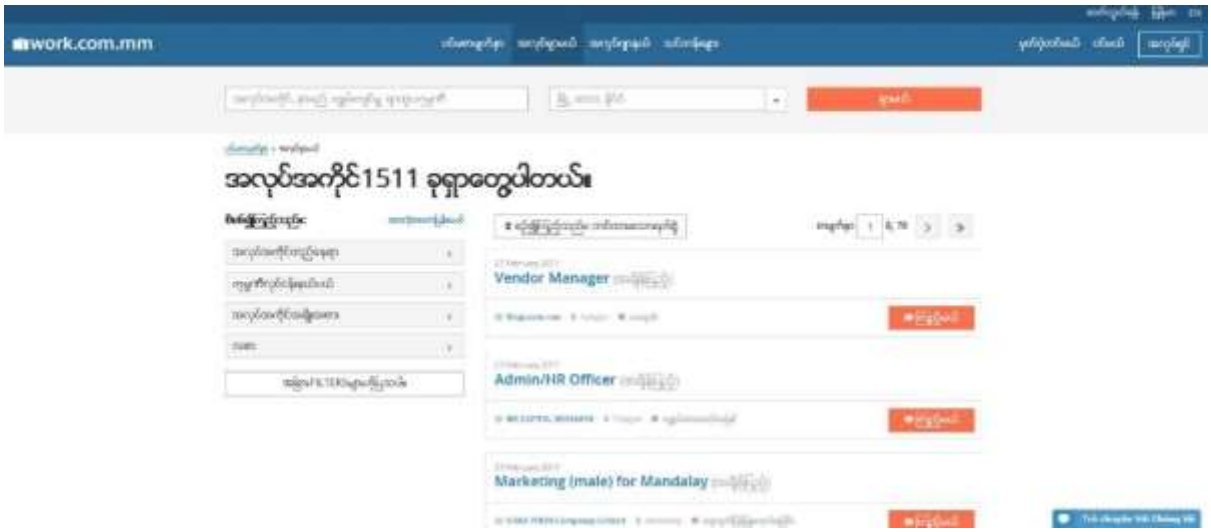


Figure 35 Work.com.mm is the largest human capital website in Myanmar

The advertisement itself should:

— be concise, but comprehensive enough to be an accurate description of the job, its requirements and rewards
— be attractive to as many people as possible
— be positive and honest about the organisation, to avoid dissatisfaction when the candidate actually comes into contact with the organisation
— include information on how to apply for the role, including any deadlines

There is no correct advertising medium for a business to use. The medium chosen will typically depend on several factors, including:

- the type of organisation—a corner shop will clearly advertise for new staff members in very different places to a large multinational company!
- the type of job being advertised—more senior positions may be advertised nationally, while junior positions may only warrant local advertising.
- the readership and circulation of the medium—how many people it will reach.
- the cost of the advertising—national newspapers will usually cost more than local newspapers or radio advertisements. Small businesses in Myanmar often turn to online options and social media which is cheaper but does not necessarily reach the desired target audience.
- the frequency and duration of the advertisements—the longer the planned advertising will last, the more the organisation will need to consider the cost of medium chosen

If the advertising has been successful, the organisation could now have a large a number of potential candidates who have expressed an interest in the vacancy. The organisation therefore has to look at how to identify and select the best candidate(s).

Application forms (Bishop and Crooks p. 36) A first, and often easiest, way of filtering out less suitable applicants is through the use of application forms. Though these are less popular than they once were, they provide the organisation with the ability to:

- Eliminate unsatisfactory applicants
- Save interview time
- Form initial personnel records for successful candidates

Selection interviews (Bishop and Crooks p. 41–42) Once managers have eliminated the least appropriate candidates from the list, the remaining applicants can be interviewed.

The purpose of an interview is to:

- Find the best person for the job.
- Ensure that the candidate understands what the job involves and what the career prospects are
- Make the candidate feel that they have been treated fairly in the selection process

There are various types of interview that an organisation may use as illustrated below.

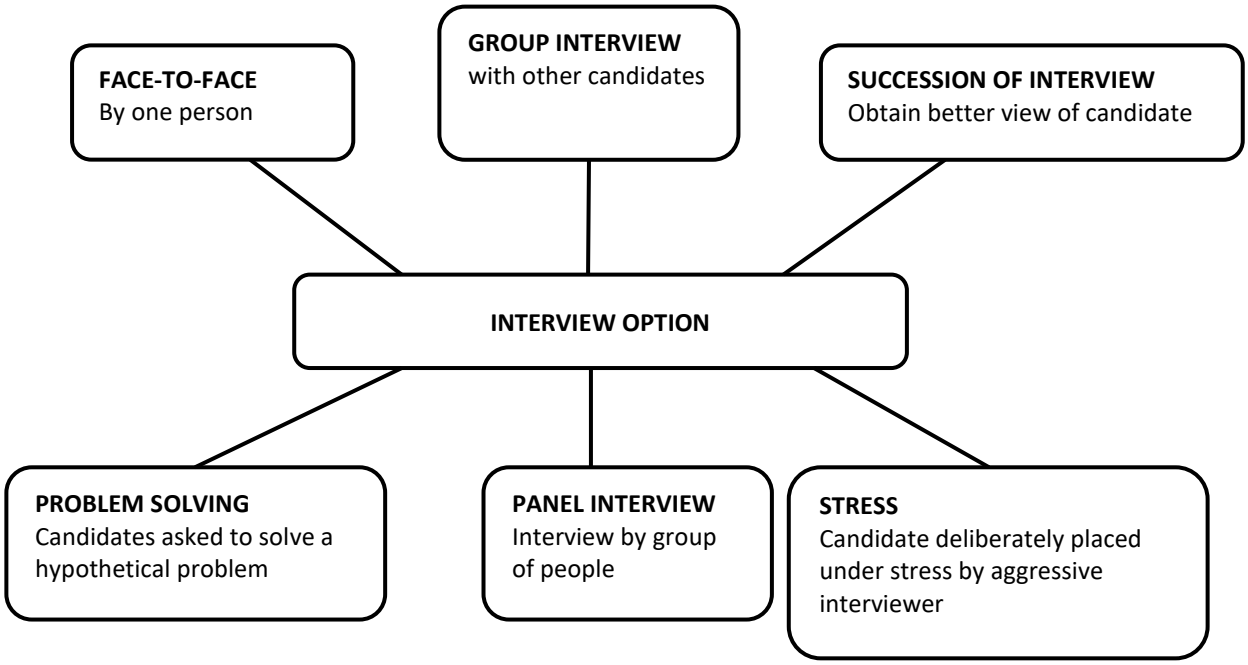


Figure 36 The interview process

Interviews have several key advantages and disadvantages as a way of selecting candidates.

ADVANTAGES OF THE INTERVIEW TECHNIQUE	DISADVANTAGES OF THE INTERVIEW TECHNIQUE
— places candidate at ease — highly interactive, allowing flexible question and answers — opportunities to use non-verbal communication — opportunities to assess appearance, interpersonal and communication skills	— too brief to get to know candidates — interview is an artificial situation — initial impression can be misleading — qualitative factors such as motivation, honesty or integrity are difficult to assess — prejudice—stereotyping groups of people — lack of interviewer preparation, skill, training and practice

— opportunities to evaluate rapport between the potential colleagues/bosses.	— subjectivity and bias.

Selection testing (Bishop and Crooks p. 39) In some cases, you will need to test a candidate to see if she/he is suitable for the job. The two basic types of test are:

- Proficiency and attainment—these are used to examine the applicant's competences, skills and abilities in areas that will be required in the job
- Psychometric—these are more general and test psychological factors, such as aptitude, intelligence and personality

There are a range of specific tests that you need to be aware of, including: intelligence tests, aptitude tests (special abilities), medical tests, proficiency tests (ability to do the job) and psychological and personality tests.

Assessment centers (group assessments) There is also the possibility of doing a group assessment. These can be done in the office with the manager or in professional centers. Each exercise has its positives and negatives. Assessors will be looking for indications that candidates that have applied fit the criteria outlined in the job description.

These exercises may include:

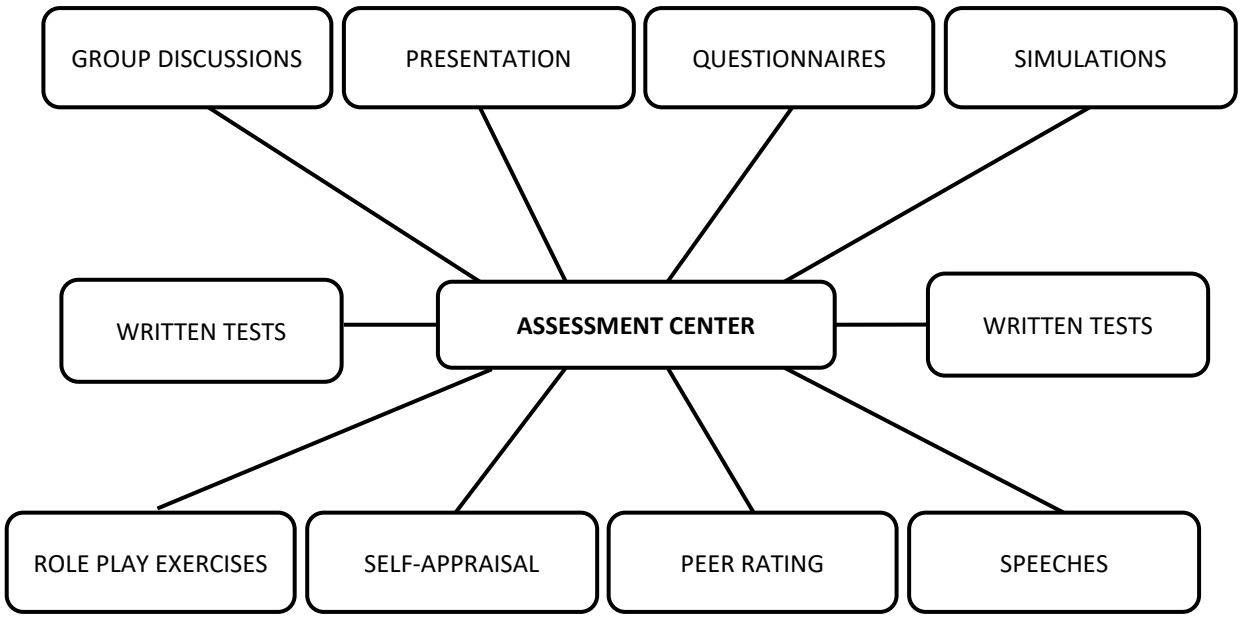


Figure 37 The assessment process

Limitations of testing Testing, whether in groups or as individuals, has several drawbacks including:

- There is often no direct relationship between ability in the test and ability in the job itself
- They are subject to coaching and practice efforts
- Interpretation of test results is often complex and requires training and experience
- Many tests can be highly subjective (especially personality tests)
- It may be difficult to exclude bias from the tests

References A reference is a person that the candidate feels can tell the potential employer why she/he is a good fit for the job. The people chosen for a reference can either write a letter/email or can be available for a phone call.

References should contain two types of information:

- Straightforward, factual information, confirming the nature of the applicant's previous job, period of employment, pay and circumstances of leaving.
- Opinions about the applicant's personality and other attributes though these are open to bias and should therefore be treated with caution.

Many organisations ask for a minimum of two references—including references from past employers as well as personal references (which are likely to be more biased in favour of the candidate). References are useful but can be biased or untrue depending on the motives of the person writing the reference.

Section questions: What position will you be hiring for in the first year of your business? Can you list some of the components that would go into a job description? Where will you go to recruit this person? Why?

6.3 DIVERSITY

(Logenecker et al. p. 537)

Diversity in your workforce is a positive. Remember that when hiring people, you need to look past prejudgments and preconceptions and think about who is best suited for the job. Diversity brings fresh perspectives and a new dynamic to the workforce which can help with creativity, innovations.

As well as the organisation embracing people from different genders, races and sexual orientations, as in equal opportunities, diversity goes further and extends to appreciating the differences in employee's attitudes, working habits, personalities and experiences.

The benefits of a diverse workforce One of the goals of diversity is having a workforce that is 'representative' of the composition of the organisation's operational environment (the external community).

Benefits should include:

- Increased competitive advantage (being in a favourable business position)
- Maximization of the organisation's HR potential
- Increased creativity and innovation
- A broader range of skills present within the organisation
- Better customer relation and service to diverse customers
- Ability to recruit the best talent from the entire labour pool
- Improved working relations in atmosphere of inclusion

Section questions: Do you think diversity in the workforce is important? Why or why not? What does diversity mean in the context of your business?

6.4 LEARNING WITHIN THE WORKPLACE

What is meant by learning?
Merriam-Webster dictionary defines learning as "the process of acquiring knowledge through experience, which leads to a change in behavior". It includes the acquisition of a new skill, new knowledge, a modified attitude or a combination of all three.

Learning can be formal, informal or incidental:

- Formal learning is undertaken deliberately when individuals consciously learn and study. It is typically institutionally sponsored, classroom-based, and highly structured.
- Informal learning is usually intentional but not highly structured. Examples include self-directed learning, networking, coaching and mentoring.
- Incidental learning is defined as a by-product of some other activity, such as task accomplishment, interpersonal interaction, trial and error experimentation, learning from mistakes or even formal learning.

Learning in the workplace Small businesses might think that work-related learning is a drain on resources. However, studies have shown that organisations that deliberately foster a culture of learning are those that are on the leading edge of development and change.

Learning in the workplace is important for the following reasons:

- It can lead to increased competence, understanding, self-esteem and morale.
- People who enjoy learning are more likely to be flexible in times of constant change and therefore are more adaptable to organisational turbulence
- There is growing evidence that a learning culture can increase the productivity and competitiveness of organisations
- If workers are not given learning opportunities, there is a risk that they will feel undervalued and become disenchanted

The learning organisation is one that facilitates the learning of all its members and continuously transforms itself. Learning organisations generate and share knowledge,

they learn from others and past experiences and they learn from failures.

Kolb's experiential learning theory (Taken from Wikipedia entry Experiential Learning) Experiential learning' can apply to any kind of learning through experience.

David Kolb developed a theory of learning through experience that can be useful for the workplace. He suggested that classroom learning is false and that actual learning comes from real life experiences.

- Experiential learning comes from DOING and this ensures that we actually solve problems
- To learn effectively from experiences, we must go through a cycle
- All four stages of the learning cycle (shown below) have to be addressed

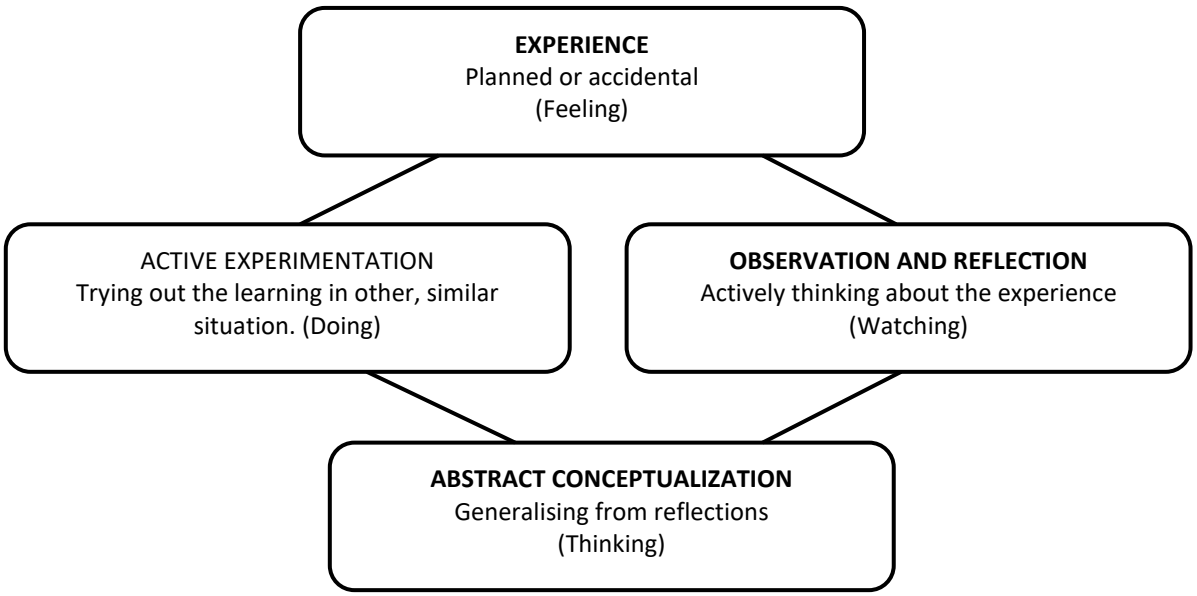


Figure 38 The four stages of the learning cycle

A feature of Honey and Mumford's model is that it provides suggestions about the best ways for individuals learn. The most effective learning methods are different for each learning style. (Taken from Wikipedia entry on Learning Styles)

- Activists—have a practical approach to training, are flexible and optimistic. They prefer practical problems, enjoy participation and challenge, are easily bored and have a dislike of theory. They must have hands-on training.

- Theorists—require their learning to be programmed and structured; designed to allow time for analysis; and provided by people who share the same preference for ideas and analysis.
- Reflectors—need an observational approach to training. They need to work at their own pace—slow, cautious and non-participative—where conclusions are carefully thought out. They do not find learning easy especially if rushed.
- Pragmatists—need to see a direct value and link between training and real problems and aim to do things better. They enjoy learning new techniques and tasks and are good at finding improved ways of doing things.

Training and Development and Education A common confusion that exists is the distinction between education, training and development. According to Michael Armstrong, education develops skills, knowledge and values. Development is the growth and realisation of skill.

Within organisations, human resources development (HRD) programs are divided into three main categories: (Taken from Wikipedia entry on Training and Development)

- Training usually means there is a planned process to modify attitude, knowledge, skill or behavior to achieve effective performance. It is job-orientated rather than personal.
- Education is usually means basic instruction in knowledge and skills designed to enable people to make the most of life in general. It is personal and broadly based.
- Development means a broader view of knowledge and skills acquisition than training, concerned more with changes in attitudes, behavior and potential than with immediate skill. It relates more to career development than job development—learning for growth of the individual, but not related to a specific present or future job.

Generally it is argued that development is more general, more future orientated and more individually orientated than training.

The survival of the organisation requires development throughout the ranks in order to survive, while training makes the organisation more effective and efficient in its day-to-day operations.

Unlike training and education, which can be completely evaluated, development cannot always be fully assessed.

Benefits of training (Longenecker p. 545) Organisations should view training as an investment. The benefits of training and development for an individual and the organisation include:

For the individual

- improved skills and (perhaps) qualifications
- Increased confidence and job satisfaction

For the organisation

- motivated employees
- increased competence and confidence
- higher productivity
- skilled workforce
- low staff turnover
- improved health and safety
- higher quality performance
- a more flexible workforce

The stages in the training and development process (Logenecker p. 544–545)

- Assessment– the phase where the current performance of the organization is assessed. This should be on the larger scale but also at the level of individual needs of the employees.
- Defining the learning required—specify the knowledge, skills or competencies needed.
- Setting training objectives—these needs to be a specific and measurable target for the trainings to see changes in performance.
- Planning the training—the phase where the "who, what, how, where and when" is decided to run the training.
- Evaluating training—a cost-benefit analysis with feedback to improve selection of method and delivery.

Methods used to identify the training needs The training needs will be indicated by a job training analysis. To do this, the manager begins with an understanding of the organisational strategy and departmental goals and objectives before she/he carries out the training needs analysis.

A job training analysis is the process of identifying the purpose of the job and its component parts and specifying what must be learnt in order for there to be effective performance.

A training 'gap' or need is any shortfall in terms of employee knowledge, understanding, skill or attitudes against what is required by the job or the demands of organisational change.

The main methods for determining the training needs of individuals are

Performance appraisal	— each employee's work is measured against the performance standards or objectives established for their job
Analysis of job requirements	— training and development needs are considered in terms of future job performance as well as in terms of improving current performance.
Organisational analysis	— uses data about the organisation as a whole, e.g. its structure, markets, products or services, human resources requirements, etc. — the key success factors are identified and analysed into HR activities.

Other methods available include surveys of staff with questionnaires or interviews of superiors and subordinates and customer surveys covering their satisfaction and dissatisfaction.

Evaluating the training programme
(Inspired by Chapter 4—Training and Evaluation found at
http://shodhganga.inflibnet.ac.in/bitstream/10603/4405/11/11_chapter%204.pdf)

If you choose to offer trainings or send your employees somewhere to be trained by others, it is worth evaluating the impact that these trainings have had. Hamblin (not examinable by name) defines evaluation as 'any attempt to obtain information

(feedback) on the effect of a training programme and to assess the value of the training in the light of that information.

Training-centered evaluation aims to assess the inputs to training, i.e. whether we are using the right tools for training. Hamblin suggests that there are five levels at which evaluation can take place.

LEVELS OF EVALUATION	ACHIEVED BY
Reactions—of the trainees to the training, their feelings about how enjoyable and useful it has been, etc.	— End-of-course questionnaires—obtain immediate feedback on the perceived value of the training but may not be the best way of evaluating the effectiveness of the program.
Learning—what new skills and knowledge have been acquired or what changes in attitude have taken place as a result of the training.	— Attainment tests—limited to the immediate knowledge and skills improvement and may not indicate whether the learning will be transferred to the workplace or job. — Interviews—appraisal or performance reviews provide an opportunity to discuss the individual's progress during and after a training and development program.
Job behavior—at this level evaluation tries to measure the extent to which trainees have applied their training on the job.	— Observation—the end results of the learning and development can be assessed by observation of improvements in job performance levels. — Career development—the speed of promotion of an individual may be used as an indication of the effectiveness of the training and development and also the level of support given to the development plan by the organisation.
Organisation—training may be assessed in terms of the ways in which changes in job behavior affect the functioning of the organisation.	— At the departmental level the effective training and development of staff can mean the achievement of targets, goals and objectives measured in terms of output, productivity, quality, etc.
Ultimate value—this is a measure of the training in terms of how the organisation as a whole has benefited	— Measurement in terms of greater profitability, survival or growth.

Whatever evaluation method is used it should be done before, during and after the event. Before will allow you to think clearly through the skills, knowledge and attitudes

you want to address. During the event, you can assess how the information you are presenting is sinking in. After the training, an evaluation indicates how things went and what you can change for the next.

Section questions: Can you identify what style of learner first for these two columns?

LEARN BEST FROM	BE LESS LIKELY TO LEARN FROM
— activities where they can observe other people first being given time to think things over — the opportunity to discuss ideas with others — having time to prepare	— situations where they are 'thrown in' without adequate time to plan or think — role play in front of others — activities where they are told what to do — having to make shortcuts for the sake of expediency?

Can you draw up a similar list for one other style? What do you think is important about training staff? What type of training would you do with your staff if given the opportunity (what skills and information would you want to address)?

6.5 PERFORMANCE ASSESSMENT

(Scarborough p. 668–671)

Performance assessment is the regular and systematic review of performance and the assessment of potential of the individual with the aim of coming up with an action plan for both work and individuals.

It aims to improve the efficiency of the organisation by ensuring that the individual employees are performing to the best of their abilities and by developing their potential for improvement.

Typically, assessing employee performance involves measuring both quantities measures (i.e. how may units the worker has produced, or how much chargeable time they have billed) and qualitative measures (i.e. their attitude, how they have interacted with other members of staff).

It is crucial that valid criteria are used when assessing employee performance. This is made more complex because most jobs have many dimensions, meaning that the assessment must look a number of different criteria in order to accurately reflect the employee's performance.

Assessment criteria may include the following:

Volume of work produced

- Within time period
- Evidence of work planning
- Personal time management
- Effectiveness of work under pressure

Knowledge of work

- Gained through experience
- Gained through training courses
- Gained prior to employee

Quality of work

- Level of technical knowledge
- Accuracy
- Judgment exercised
- Cost effectives

Management skills

- Communication skills
- Motivation skills
- Training and developer skills
- Delegation skills

Personal skills

- Decision-making capabilities

- Flexibility
- Adaptability
- Team involvement
- Motivation

The process of performance assessment Organisations follow four main steps when assessing performance of employees:

Set targets—at the start of the period, the manager and employee should agree on which goals and targets the employee is going to work towards. These usually include:

- Areas that the employee needs to improve
- Targets that link in to the overall business goals
- Development and training targets that will benefit the employee (and the company) and therefore increase motivation

It is important that employees understand and agree to these targets. If they do not 'buy into' them, they will not put any effort into accomplishing the goals set, especially if they do not feel that the targets are achievable. This can lead to demonization.

Monitor—during the period, the manager should monitor employee performance and provide regular feedback. The manager can offer rewards for good performance and support and help when it looks as though the employee is failing to meet their targets.

Review—at the end of the period, the manager and employee will usually have a formal appraisal where they discuss the employee's performance and investigate how successful the employee has been at meeting the pre-agreed targets.

Action plan—the manager and employee then agree on new targets that will be set for the coming period.

An appraisal is normally a formal process by which the progress, performance, results and sometimes personality of an employee are reviewed and assessed by his or her immediate superior.

Purposes of appraisals Form the individual employee's point view, these will include:

- Providing a basis for remuneration for the coming period.
- Ensuring that work of particular merit is recognised.
- Providing a forum for the employee to voice concerns about work areas that the employee is unhappy with.
- Establishment of what is expected of the individual in the coming period and how the employee will be assessed by the business.
- Identification of training and development needs.
- Determination of the future employee of the individual, such as whether they remain in the same job, gets transferred, promoted, etc.

To the employer, the objectives include:

- Monitoring of human resource selection process against results-has the organisation been hiring the right people?
- Identification of the best candidates for promotion, early retirement, etc.
- Identification of problems of difficulties with the job that had not been previously realized.
- Helping to formulate the training plan by identifying weaknesses or skills gaps in employees.
- Helping to formulate a human resources plan-for example, are key staff members over-worked? Do new employees therefore need hiring to provide additional help?
- Improvement of communication between managers and subordinates.

The performance appraisal process (Longenecker et al. p. 555) A performance appraisal (or review) allows the manager and the employee to reflect on the work and performance of the employee. The appraisal should take place systematically (maybe twice a year) and should cover SMART goals: Specific, Measurable, Achievable, Realistic and Time-bound.

The following provides an overview of the process.

Identify criteria for assessment—this involves examining the corporate plan of the business and deciding what targets should be set for the employee in order to help the business meet its objects. It is usually based upon job analysis, job requirements, performance standards and person specifications.

Production of an appraisal report—the manager will then prepare an appraisal report, detailing the appraiser's performance in the agreed criteria. Sometimes the appraise will also write a report and the two will be compared. In some organisations, staffs are expected to perform self-appraisal, with managers reviewing the output at the end of the process. While it saves the manager time, employees may find it difficult to be truly honest with themselves about their strengths and weaknesses.

Appraisal interview—the manager will usually interview the staff, allowing an exchange of views about the appraisal reports, along for discussion and agreement on action points, training and targets for the coming period. The effectiveness of this interview will depend on the skill of the superior conducting the interview. Maier identified three types of approaches to appraisal interviews:

Tell and sell—the appraiser adopts the strategy of a salesperson, trying to persuade and convince the subordinate that the appraisal is fair and those they can and must change in certain ways. It is a one-way communication system.

Tell and listen—the appraiser listens to the job-holder's perception of their job and their problems, expectations and aims and does not dominate the interview. As it is important to listen to the subordinate and be prepared to change an evaluation in the light of new evidence, this method is likely to more effective.

Joint problem solving—this represents a shift in emphasis from the first two methods. The appraiser uses many social skills to encourage the interviewee to do a self-assessment, admit their own problems and suggest solutions, with the appraiser acting as a coach and counselor.

Follow up / conclusion and action plan—this involves giving out the results of the appraisal, monitoring the progress of the action plan, carrying out agreed actions on training and development and giving regular feedback.

Benefits of effective appraisal—Staff appraisal can have benefits for both the employer (the organisation) and the employee:

BENEFITS FOR THE EMPLOYER	BENEFITS FOR THE EMPLOYEE
— It provides a formal system for assessing the performance and potential of employees, with a view to identifying candidates for promotion. — It provides a system for identifying ways of improving the competence of employees, in order to raise the general level of efficiency and effectiveness of the work force. — It is a valuable system for human resource planning, and ensuring that employees are ready for promotion, to fill management job vacancies that arise. — If it is well managed communications can be improved between managers and staff ad so improve working relationships.	— The employee gets feedback about performance at work, and an assessment of competence. — A formal appraisal system offers the employee an opportunity to discuss future prospects and ambitions. — An appraisal interview may be used as a basis for considering pay and rewards. — Appraisal can be used to identify and agree measures for further training and development, to improve the employee's competence.

Barriers to effective staff appraisal If not handled carefully, appraisals can be demoralising for employees. Various studies have indicated that criticism of employees can have a negative effect on their achievement and self-confidence. Lockett suggested that there are six main barriers to effective appraisals:

Appraisal as confrontation	— Differing views regarding performance. — Feedback is subjective—the manager is biased allowing personality differences to get in the way of actual performance. — Feedback is badly delivered. — Assessment is based on yesterday's performance not on the whole year. — Disagreement over prospects solutions.
Appraisal as judgment	— Appraisal is seen as a one-sided process—the manager is judge, jury and counsel for the prosecution. — Appraisal is imposed.
Appraisal as chat	— Lack of will from either party. — An unproductive conversation. — No outcomes set.
Appraisal as bureaucracy	— A traditional ceremony. — No purpose on worth, simply a 'box-ticking' exercise.
Appraisal as an	— A traditional ceremony.

annual event	— No real focus on goals for the coming year, simply a way of finishing off the current period.
Appraisal as Unfinished business	— Frustration at limited appraisal time. — No belief that issues will be followed up.

Overcoming the barriers to effective appraisals One of the main barriers to effective appraisal is the view of employees that the annual appraisal is not important and that nothing is done after the appraisal interview is finished.

To deal with this, consider the following practical ideas:

— Make sure there is a system of follow-up and feedback relating to the appraisal.
— Agreements between the employee and manager relating to further training and development should be made part of the official record of the appraisal interview.
— The agreed action plan should be reported to senior management and / or the HR department.
— The manager should ensure that any training and development agreed on is arranged and this should be discussed at the next appraisal meeting.

More generally, best practice of appraisals is given by the 4 Fs:

— Firm—managers should be willing to discuss negatives as well as favorable aspects of performance.
— Factual—subjective aspects of performance should be avoided.
— Fair—all employees should be treated the same.
— Frequent—appraisals should be held on a regular basis rather than just when a problem arises.

Evaluating the effectiveness of performance appraisal Evaluating the appraisal process can involve the following:

— Calculating the costs and benefits of the appraisal process.
— Monitoring performance results to see if there have been improvements.
— Checking the uptake of training and development opinions on the process.
— Review of other indicators, such as staff turnover—a figure that is too high or too low could indicate a problem in the organisation.

More generally, Lockett argued that the appraisal process should be monitored to ensure its:

- Relevance— does the system have a useful purpose and is it relevant to the needs of both the organisation and the individual? Do the appraisal criteria link to the needs of both parties?
- Fairness— is there reasonable objectivity and standardisation of criteria throughout the organisation?
- Serious intent—is the management committed to the system or has it simply been thrust on them by the HR department? Do the appraisers have training in interviewing and assessment techniques? Is there a demonstrable link between performance and reward?
- Co-operation—is the appraisal a participative, problem-solving activity, with the staff being given time and encouragement to prepare for it? Is a jointly agreed conclusion arrived at by the by end of the appraisal?
- Efficiency—is it costly and difficult to administer and does it seem too time-consuming compared with the value of its outcome?

Staff turnover The causes of staff leaving fall into three categories:

- Firing—as a result of an employee's unsuitability, disciplinary action or redundancy.
- Unavoidable—because of marriage, moving to a new house, illness or death.
- Avoidable—due to pay, working conditions, relationships with work colleagues.

From records, the staff turnover can be calculated by dividing either the total separations (those leaving the organisation) or the total replacements by the average number in the workforce and expressing the result as a percentage. Examination of this figure may highlight vital information, e.g. poor selection techniques or poor working conditions.

The process of staff appraisal and assessment should highlight any causes of dissatisfaction, find solutions and remedy them before the employee loses motivation, looks for another job and resigns.

Section questions: What do you think about the appraisal process? Is it clear? Do you feel it is useful? Would you use reviews/appraisals with your staff? Why or why not?

CHAPTER 7

MOTIVATION, CONCEPTS & MODEL

MOTIVATION
CONTENT NEEDS OF THEORIES OF MOTIVATION
PROCESS THEORIES OF MOTIVATION
PRACTICAL WAYS TO MOTIVATE STAFF
REWARD SYSTEM

7.1 MOTIVATION

Merriam Webster Dictionary explains that motivation is the will to do, the urge to achieve goals, the drive to excel. It is also the degree to which a person wants and chooses to engage in certain behaviors. All behavior is motivated; the performance of a task is the product of ability and motivation.

Figure 39 Motivation

Motivation can be either positive or negative. Positive motivation, sometimes called anxiety-reducing motivation or the carrot approach, offers something valuable to the individual such as pay, praise or permanent employment for acceptable performance. Negative motivation, often called the stick approach, uses or threatens punishment by dismissal, suspension or the imposition of a fine if performance is unacceptable.

Motivators are forces that induce individuals to perform, forces that influence human behavior. They are underpinned by the individual's values, beliefs, attitudes, needs and goals.

Values can influence motivation in two particulars ways:

- They affect the types of activity that people will find appealing.
- They influence people's motivation towards specific rewards such as money, power and prestige, e.g. if people value monetary rewards highly and find themselves in a situation where effective performance leads to greater income, they are likely to be highly motivated.

There are two ways in which beliefs are particularly important to motivation:

- People must believe that what is required of them is possible to achieve.
- They need to believe that, by performing well, they will personally benefit from their efforts.

Figure 40 The importance of a good attitude

Attitudes are important to motivation. A person with a positive attitude towards the organisation will be more likely to come to work regularly and stay with the company even if offered a job in another organisation.

Figure 41 Example of a bad attitude

Needs Motivation is said to relate to need. A person with a particular need will be

motivated to engage in behavior that will lead to the satisfaction of that need.

Goals influence motivation in two ways:

— A goal provides a target to aim at, something to aspire to
— A goal provides a standard of performance

There are many approaches to the study of motivation, but the most studied are Content and Process theories emphasizing respectively the what and how of motivation.

Motivation theories fall into two groups.

CONTENT THEORIES	PROCESS THEORIES
— Ask the question "what" 'are the things that motivate people? They are also referred to as "need theories" and assume that human beings have a set of needs or desired outcomes which can be satisfied through work. — Content theories assume that everyone responds to motivating factors in the same way and that there is one best way to motivate everybody.	— Ask the question "how" to motivate people. They attempt to explain how individuals start, sustain and direct behavior and assume that individuals are able to select their own goals and means of achieving those goals through a process of calculation. — Process theories change the emphasis from needs to the goals and processes by which workers are motivated.

Section questions: What motivates you in starting your business? Why are these motivating factors? What are some activities that help motivate you to work? Why?

7.2 CONTENT NEEDS THEORIES OF MOTIVATION

(Daft p. 443)

Content theories are sometimes known as 'need' theories and focus on the needs served by work. People differ not only in their ability to complete a task but also in their 'will to do' or motivation. The motivation of a person depends on the strength of their needs. The content (need) theory model is shown as:

Perceived need—tension (motivating force)—activity—tension reduced (goal achieved)

The best-known work in this area is that of Maslow's needs hierarchy, McClelland's achievement motivation and Herzberg's two-factor theory.

Hierarchy of Needs (Maslow) (Daft p. 443–445) Maslow identified a hierarchy of human needs which individuals pursue in a predicted sequence. Maslow showed how an individual's emphasis moved from basic to the higher needs as satisfaction at that lower level occurred.

The easiest way to think about Maslow's hierarchy is in the shape of a pyramid. At the base of this pyramid is the physiological—basic salary and safe working conditions.

Next layer is safety/security, which is connected to job security. The third level is the social, which at work translates to good teams and friendships. The fourth layer of the pyramid is ego. In the workplace this is linked to merit pay increase or higher status jobs. At the very top is self-fulfillment (the ultimate goal). For an employee this can mean challenging jobs with creative tasks, advancement opportunities or achievement at work.

The peak of each level must be passed before the next level can begin to assume a dominant role. Needs do not have to be completely satisfied before higher needs emerge, a sufficient level of satisfaction is acceptable as opposed to the maximum or optimum level.

Maslow's theory may be summarized and simplified by saying that everyone wants certain things throughout life, and these can be placed in five ascending categories, namely:

- Basic or physiological needs—the things needed to stay alive such as food, shelter and clothing. These needs can be satisfied by money.
- Safety or security needs—people want protection against unemployment, the consequences of sickness and retirement as well as being safeguard against unfair treatment. These needs can be satisfied by the rules of employment, i.e. pension scheme, sick fund, employment legislation, etc.

- Social needs—the vast majority of people want to be part of a group and it is only through group activity that this need can be satisfied. Thus the way that work is organised, enabling people to feel part of a group, is fundamental to satisfaction of this need.
- Ego needs—these needs may be expressed as wanting the esteem of other people and thinking well of oneself. While status and promotion can offer short-term satisfaction, building up the job itself and giving people a greater say in how their work is organised gives satisfaction of a more permanent nature. An example might be being to lead groups on a course.
- Self-fulfillment needs—this is quite simply the need to achieve something worthwhile in life. It is a need that is satisfied only by continuing success, for example opening and running a new office.

The significance of Maslow's hierarchy of needs is that is underlines the relative importance of money. Status gives little satisfaction to a person desperate for food and shelter. Equally it demonstrates that money alone is not enough, and indeed as basic and safely needs become satisfied people are likely to concentrate their attentions on social and ego needs.

Two Factor Theory of Motivation (Herzberg) (Daft p. 446–447) Herzberg to conclude that there are two important factors in work situations:

- Satisfiers (motivators)
- Dissatisfies (or hygiene factors)

Herzberg identified five motivating factors and five dissatisfies or hygiene factors related to job satisfaction. They are shown below:

MOTIVATING FACTOR	HYGIENE FACTORS
1. Achievement	1. Company policy and information
2. Recognition	2. Technical aspects of supervision
3. The work itself	3. Salary
4. Responsibility	4. Interpersonal relations
5. Advancement	5. Working conditions

Motivating factors were related to the content of work. He encouraged entrepreneurs to study the job itself (i.e. the tasks done, the nature of the work and responsibility), and provide opportunities to satisfy the motivating factors.

Hygiene factors or dissatisfies, relate to the context or environment of work rather than to job content. Hygiene factors are purely preventive. If the organisation provides them it will prevent the workers from being dissatisfied with their job, but they will not motivate positively.

If workers perceive only dissatisfies and no satisfiers in the work environment, management is faced with a potentially explosive situation charactersed by high turnover, low performance and strikes. The ideal situation is one in which there are satisfiers but no dissatisfies—an absence of negative factors leading to high job performance.

Achievement Motivation Theory (McCelland) (Daft p. 447–448) McCelland emphasized three fundamental needs as motivators: achievement, affiliation and power.

Achievement—this need is to attain something related to a specific set of standards. There are two extremes: some people want to achieve something which has only a limited chance of success, whereas others want or undertake work in which chances of being a success are highly rated. The majority lies somewhere in between.

Affiliation—there is a need to develop interpersonal relationships on a friendly basis—some people want this at all costs and most enjoy working in an environment in which friendly co–operation is possible.

Power—this is the need to influence others and lead them into behaving in a way in which they would not normally behave.

Section questions: What are some motivating factors that managers have used in your workplace? What are some hygiene factors that have been a problem for you at work? What has done to solve your dissatisfaction? As a manager, would you have done things differently to deal with the issue?

7.3 PROCESS THEORIES OF MOTIVATION

(Daft p. 450)

Process theories (expectancy and goal) emphasis the goals and processes by which workers are motivated and the importance of rewards. They attempt to explain and describe how people start, sustain a direct behavior aimed at the satisfaction of needs or the elimination or reduction of inner tension.

Expectancy Theory (Vroom) (Daft p. 450–452) Vroom believes that people will be motivated to do things to reach a goal if they believe in the worth of that goal and if they can see that what they do will help them in achieving it.

Vroom's theory states that people's motivation toward doing anything is the product of the anticipated worth that individual places on a goal and the chances of achieving that goal. It may be stated as:

Force = Valence x Expectancy

Meaning:

Force = the strength of a person's motivation

Valence **= the strength of an individual's preference for an outcomes**

Expectancy = the probability that a particular action will lead to a desired outcome

A person will be motivated, says the theory, if she/he sees that there is a reasonable chance of reaching the level of performance required to achieve a personal goal and that the outcome will be delivered.

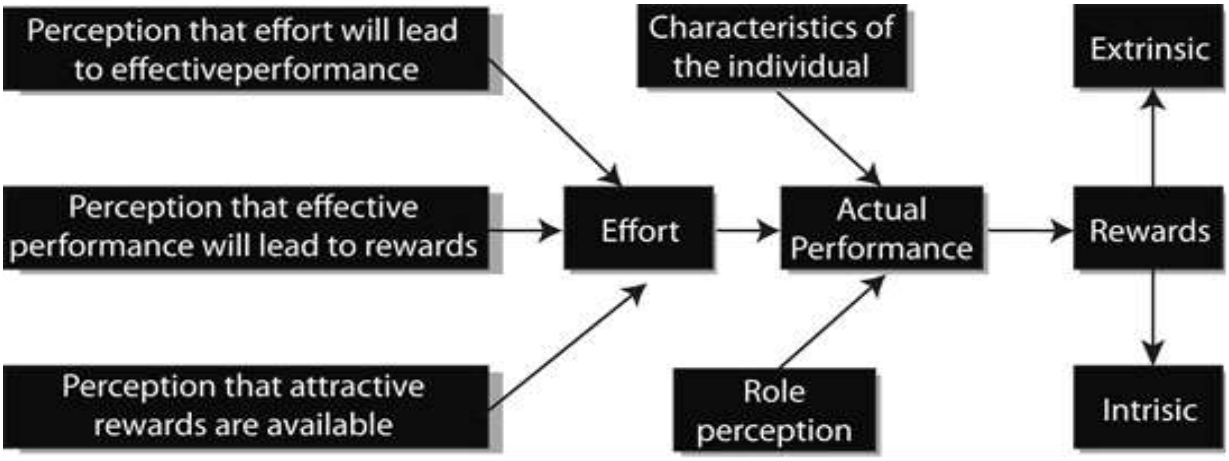


Figure 42 Rewarding performance

The heart of the theory is that an individual's performance is the result of a number of factors; perceptions about the situation, the worker's place in the organisation (their role), and their characteristics including skills, personality, training and so on.

The main perceptions that possibly affect effort include the importance and the availability of the attractive rewards, plus thinking that effort will lead to the rewards. The nature of the rewards may be intrinsic, such as the feeling of a job well done, or perhaps a feeling of personal growth. Extrinsic rewards are those generally in the control of the organisation rather than the individual, such as promotion and pay.

Motivation Calculus (Handy) The idea put forward here is that each person has a specific 'motivation calculus' in respect of every decision taken and this can be on a conscious or a subconscious basis. This assesses three factors:

- needs—the person's needs at that time
- desired results—what a person is expected to accomplish in the work
- expenditure (E) factors—the expenditure of effort, energy, and excitement in attaining the desired results

Motivation decision is the strength of the motivation to achieve the desired results. It will have to be dependent upon:

- The strength of the needs of the individual.
- The expectancy that the expenditure will achieve the desired results.
- The expectancy that these desired results will assist in the satisfaction of the needs.

Given that the expectancy (either for expenditure or results) is high, then the motivation to undertake the work will also be high. There is no theory of motivation that can be absolutely correct. Different individuals will react to different forces motivating them in accordance with:

- The kind of person she/he
- The way the motivational needs relate to the job being done
- The individual's own idea of the probability of his or her personal effort being able to accomplish the standards set by management.

Charles Handy therefore suggests that:

- Each individual must know exactly what is expected
- She/he should participate in the setting of targets in accordance with personal objectives
- Feedback, on a regular basis, is necessary to inform individuals of their performance in relation to the targets.

Handy's motivational calculus has gained acceptance as being the most meaningful and practical approach to date. It is one that practicing entrepreneurs can directly apply in their own situations and it provides a model to analyses how people's behavior changes over time.

Equity Theory (Adam) (Daft p. 449–450 and Dessler p. 427) Equity theory focuses on people's feelings of how fairly they have been treated in comparison with the treatment received by others.

Adams argues that inequities exist whenever people feel that the rewards obtained for their efforts are unequal to those received by others. Inequities can be negative or positive. When people sense inequities in their work they will be aroused to remove the discomfort and restore a state of felt equity to the situation.

Section questions: Do you think these process theories of motivation are useful? Why or why not?

7.4 PRACTICAL WAYS TO MOTIVATE STAFFS

Role of entrepreneur Entrepreneur's responsibility for the performance of staff can be summarized into three main functions:

- Motivating staff to perform at the upper limit of performance
- Coaching staff so they develop their ability and increase their potential for high quality work
- Clarifying and enforcing the level of acceptability so that poor performers are given the opportunity to discuss and evaluate their performance

The entrepreneur has to become involved with the motivation of the employees so that the performance requirements of the organisation can be met and the employees' needs and expectations satisfied. It means knowing something about motivation theory and understanding how it can help him or her carry out his or her duties and responsibilities effectively.

Participation People are motivated by being involved in the actions and decisions that affect them. Participation is also recognition of the value of staff, since it provides a sense of accomplishment and 'being needed'.

An entrepreneur seeking to raise performance by increasing motivation could involve staff in the planning and inspection aspects of the work encouraging staff to participate in the design of the work planning schedules. Staff would be motivated to achieve the targets that they had helped establish.

The use of participation is not an automatic receipt for increased motivation. It depends upon the individual people and circumstances involved. There are certain guidelines that must prevail if participation is to be effective in raising motivation

- The matters for participation must be meaningful and relevant
- The participation must be seen as a continuing approach not just a "one-off" exercise
- Staff must be fed results of their involvement as quickly and fully as possible
- The participation must be genuine
- People must have the ability, equipment and will to be involved

Quality of work life The approach is a very wide-ranging application of the principles of job enrichment. The intention is to improve all aspects of work life, especially job design, work environment, leadership attitudes, work planning and industrial relation. It is an all-embracing systems approach, which usually starts with a joint management and staff group looking at the dignity, interest and productivity of jobs.

Job Design (Daft p. 455–460) Job design is the process of defining what activities are carried out by a job- or role-holder. Each activity consists of three elements: planning (deciding what to do, if there is any choice), executing (implementing the plan) and controlling (monitoring performance and progress and taking corrective action as necessary).

Herzberg defines three avenues that management can follow in attempting to improve staff satisfaction and motivation.

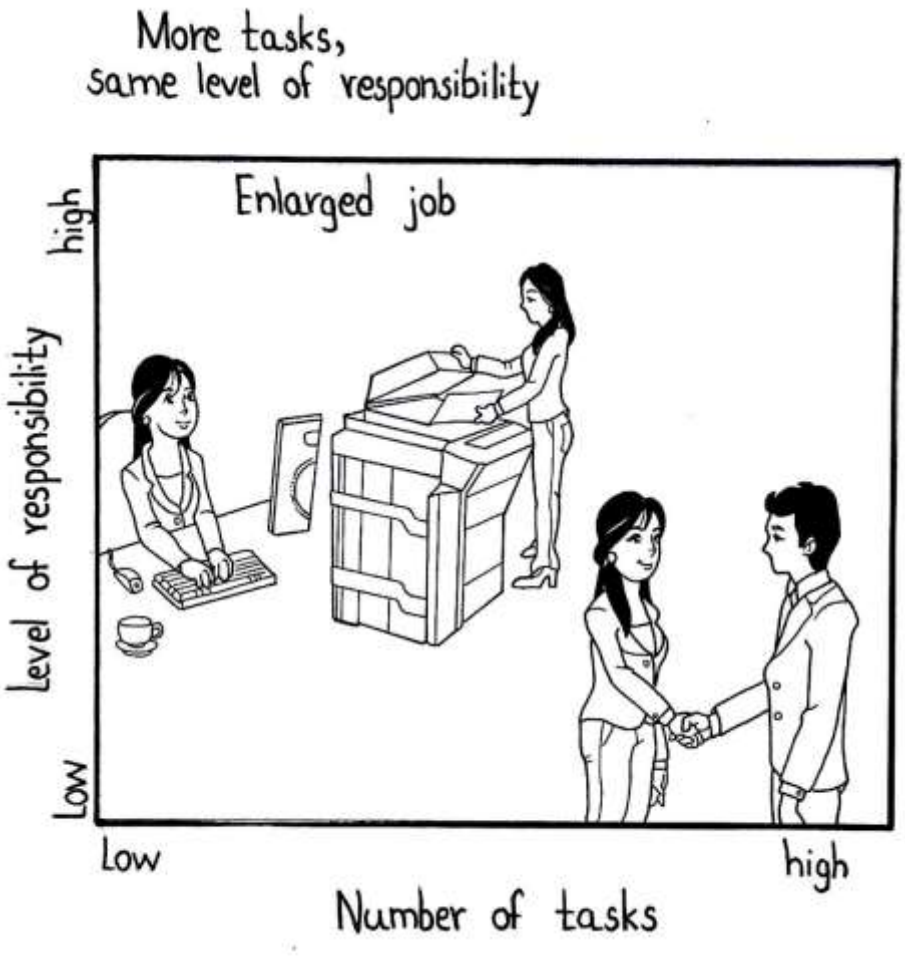


Figure 43 Managing tasks

Job enrichment is improving responsibility and challenge and has been called "vertical job enlargement". Examples include delegation or problem solving.

Job enlargement is widening the range of jobs, allowing the employee to avoid narrow specialisation. This is sometimes called "horizontal job enlargement". There is little motivation value in this approach.

Job rotation is the planned rotating of staff between jobs to alleviate monotony and provide a fresh job challenge. Job rotation would ensure equal time being spent by each individual on all jobs. This will help to relieve monotony and improve job satisfaction but is unlikely to create positive motivation.

Section questions: How important do you think it is to design a job that is motivating to an employee? Is it important enough to sacrifice things such as having a specialist on your team?

7.5 REWARD SYSTEM

(Daft p. 459)

Money as a motivator Money in the form of pay is a powerful motivator. The multiple meanings of pay can be related to the motivational theories examined as follows:

- Maslow—pay is unique in that it can satisfy all types of need. This will be directly in the case of lower level needs, and otherwise indirectly
- McClelland—high-need achievers view pay as performance feedback and as a measure of goal accomplishment
- Herzberg—pay is normally viewed as a hygiene factor but it can be a motivator when it occurs as a merit increase that gives special recognition for a job well done
- Equity theory—pay is an object of social comparison and is a major reason for felt inequity
- Expectancy theory—pay is only one of many work rewards that may be valued by individuals at work. When instrumentality and expectancy are high, pay can be a source of motivation

The most direct use of money as a motivator is payment by results schemes whereby an employee's pay is directly linked to his results. All such schemes are dependent upon the belief that people will work harder to obtain more money.

Power and status Money in absolute terms, as an exact amount, is important because of its purchasing power. It's what money can buy, not money itself, that gives it value. Because money can be exchanged for satisfaction of needs, money can symbolize almost any need an individual wants it to represent.

Money is also important as an indication of status. Increasing differentials between jobs creates feelings of a senior status in the person enjoying the higher salary. Money is a means of keeping score.

Money will motivate if the prospective payment is significantly large. Small increase can prevent feelings of dissatisfaction but to create motivation in a person who will be motivated by money it necessary for the amounts to be large.

Rewards and incentives (Daft p. 442) A reward is something given, to an individual or group, in recognition of their services, efforts or achievements. The rewards that on organisation offers to its employees can either be intrinsic or extrinsic.

- Intrinsic rewards—arise from the performance of the job itself. Intrinsic rewards include the feeling of satisfaction that comes from doing a job well, being allowed to make higher level decisions or being interested in your job. Intrinsic factors tie in to motivators.
- Extrinsic rewards—are separate from (or external to) the job itself and are dependent on the decisions of others (i.e, the workers have no control over these rewards). Pay, working conditions and benefits are all examples of extrinsic rewards. Extrinsic rewards are closely linked to hygiene factors.

Reward systems The offering of positive rewards to employees is a key motivation issue for most organisations. However, rewards systems should be carefully designed that they:

- are fair and consistent for all employees, even for those workers with different job sizes or required levels of skill

- are sufficient to attract and retract staff
- maintain and improve levels of employee performance
- reward progression and promotion
- comply with legislation and regulation (i.e. minimum wage laws)
- control salary costs

Most employees will be particularly interested in their remuneration. One way that businesses are tying the performance of their employees to their pay is through the use of incentive schemes.

There are three main types of incentive schemes:

Performance related pay (PRP)

- Piecework—reward related to the pace of work or amount of effort. The faster the employee works, the higher the output and the greater the reward.
- Management by objectives (MBO), key results are identified for which rewards will be paid on top of salary
- Points system—this is an extension to MBO reward systems, where a range of rewards are available based on a point system derived from the scale of improvement made, such as the amount of cost reduction achieved
- Commission—paid on the performance of an individual and typically paid to salaried staff in sales functions, where the commission earned is a proportion of total sales made
- Bonus schemes—usually a one off as opposed to PRP schemes which are usually a continual management policy. Bonuses may also be awarded to teams or groups that have met or beaten certain targets. Group bonuses can help the team to pull together and work as a cohesive unit, but may lead to conflict if some members of the team are seen to be doing less work than others.
- Profit sharing—usually available to a wide group of employees (often companywide) where payments are made in the light of the overall profitability of the company. Share issues may be part of the scheme.

Section questions: What type of incentives will you use with your staff? Why? If additional money is not an option, what do you think are good alternatives?

CHAPTER 8

MICROECONOMICS

MICROECONOMIC CONTEXTS
MARKETS AND COMPETITION
MARKET STRUCTURE
MARKET FORCES OF DEMAND AND SUPPLY
DEMANDS
SUPPLY
MARKET EQUILIBRIUM
ELASTICITY

8.1 MICROECONOMIC CONTEXTS

(Mankiw p. 25 and Merriam Webster)

Microeconomics is the study of economic decisions and actions taken by individual people, companies, etc. Among other things, it looks at how households and firms make decisions and how they interact in specific markets. Markets are a place where products are bought and sold. A good is something that is manufactured or produced for sale. Goods are an essential component to markets.

The Circular-Flow Diagram (Mankiw p. 25) This circular-flow diagram is a schematic representation of the organisation of the economy. Decisions are made by households and firms. Households and firms interact in the markets for goods and services (where households are buyers and firms are sellers) and in the markets for the factors of production (where firms are buyers and households are sellers). The diagram below shows how these things interact. The outer set of arrows shows the flow of money, and the inner set of arrows shows the corresponding flow of goods and services.

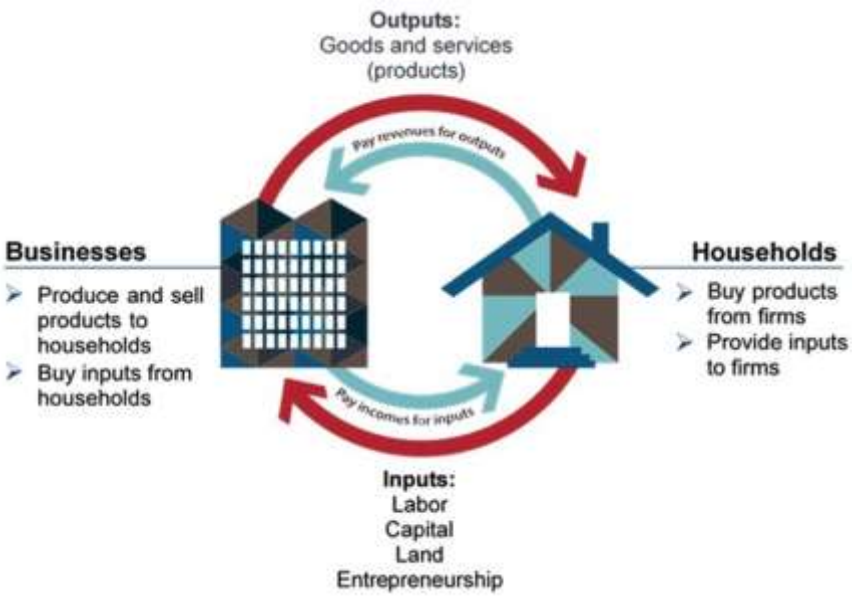


Figure 44 The circular flow diagram (by Brian Craig, Wikimedia)

A market in this case refers to a group of buyers and sellers of a particular good or service. The buyers as a group determine the demand for the product, and the sellers as a group determine the supply of the product (through their purchases).

There are two types of "actors" in the market: (a) households and (b) firms. These two

actors behave and contribute to the market in different ways.

Households and firms interact in two types of markets:

- the market for goods and services
- the market for factors of production

In the markets for goods and services, households are buyers and firms are sellers. In particular, households buy the output of goods and services that firms produce.

In the markets for the factors of production, households are sellers and firms are buyers. In these markets, households provide firms the inputs that the firms use to produce goods and services.

Markets have both tangible and intangible goods. The factors of production are what is needed to make something. The resources the economy uses to produce goods and services include:

- labor
- land
- capital (buildings and machines used in production)

Figure 45 The market for goods and services—Yangon fish market

Figure 46 The market for factors of production—Yangon port

There are different kinds of goods in the economy, and it is helpful to group them according to two characteristics: (Mankiw p. 218)

- Is the good excludable?
- Is the good rival?

Excludability refers to the property of a good whereby a person can be prevented from using it. If a consumer has not paid for it, he/she does not get to use it.

Rivalry refers to the property of a good whereby one person's use diminishes other people's use.

Four Types of Goods (Mankiw p. 218–219)

Private Goods are both excludable and rival in consumption. Most goods in the economy are private goods like ice-cream cones: You don't get one unless you pay for it, and once you have it, you are the only person who benefits.

Public Goods are neither excludable nor rival in consumption. That is, people cannot be prevented from using a public good, and one person's use of a public good does not reduce another person's ability to use it.

Common Resources are rival in consumption but not excludable. An example of this would be fish in the ocean. When fishermen catch fish, there are less for other people to catch. However, since the ocean is big, it is difficult to stop fishermen from catching fish.

Club Goods are goods that are excludable but not rival in consumption. An example of this is a fire department. A person can easily be excluded from this good as the firemen could simply not answer the fire call and let the person's house burn down. These are also called natural monopolies where there are high fixed costs or in industries that require raw materials.

Public goods differ from other types of goods in several ways. For example, the free-rider problem offers an example of this.

Free-rider Problem (Mankiw p. 220) A free-rider is a person who receives the benefit of goods but avoids paying for it. Since people cannot be excluded from enjoying the benefits of public goods, individuals may withhold paying for the goods hoping that others will pay for it. The free-rider problem prevents private markets from supplying public goods.

Importance of Property Right (Mankiw p. 229–230) There are some "goods" that the market does not provide adequately. Markets do not ensure that the air we breathe is clean or that our country is defended from foreign aggressors. Instead, societies rely on the governments to protect the environment and to provide for the national defense.

The market fails to allocate resources efficiently because property rights are not well established. That is, some item of value does not have an owner with the legal authority to control it. For example, although no one doubts that the "goods" of clean air or national defense is valuable, no one has the right to attach a price to it and profit from its use. A factory pollutes too much because no one charges the factory for the pollution it emits. The market does not provide for national defense because no one can charge

those who are defended for the benefit they receive.

When the absence of property rights causes a market failure, the government can potentially solve the problem. Sometimes, as in the sale of pollution permits, the solution is for the government to help define property rights and thereby unleash market forces. Other times, as in restricted hunting seasons, the solution is for the government to regulate private behavior. Still other times, as in the provision of national defense, the solution is for the government to use tax revenue to supply a good that the market fails to supply. In all cases, if the policy is well planned and well run, it can make the allocation of resources more efficient and thus raise economic wellbeing.

Section questions: Why is the distinction between excludable goods and rival goods useful? Can you provide an example of each of the four types of goods? (Think about the things that you see around you, the things that you use and the things you buy.)

8.2 MARKETS AND COMPETITION

(Mankiw p. 66)

Market—As described earlier, a market is a group of buyers and sellers of a particular good or service. The buyers as a group determine by the demand for the product, and the sellers as a group determine by the supply of the product.

Competitive market A competitive market is a market in which there are so many buyers and so many sellers that each has a negligible impact on the market price. Markets are perfectly competitive. To reach this highest form of competition, a market must have two characteristics:

- The goods offered for sale are all exactly the same, and
- The buyers and sellers are so numerous that no single buyer or seller has any influence over the market price

Because buyers and sellers in perfectly competitive markets must accept the price the market determines, they are said to be price takers. At the market price, buyers can buy all they want, and sellers can sell all they want.

Section questions: How is the concept of a competitive market good for you as an entrepreneur?

8.3 MARKET STRUCTURE

Economists who study industrial organisation divide markets into four types — monopoly, oligopoly, monopolistic competition and perfect competition.

Monopoly (Mankiw p. 300) A firm is a monopoly if it is the sole seller of its product and if its product does not have close substitutes. The fundamental cause of monopoly is barriers to entry.

A monopoly remains the only seller in its market because other firms cannot enter the market and compete with it. These barriers to entry, in turn, have three main sources:

Figure 47 Yangon Bus Service (YBS) holds a monopoly in bus transportation in Yangon

- Monopoly resources—a key resource required for production is owned by a single firm
- Government regulation—the government gives a single firm the exclusive right to produce some good or service
- The production process—a single firm can produce output at a lower cost than can a larger number of producers

A monopoly such as Microsoft has no close competitors and, therefore, has the power to influence the market price of its product. While a competitive firm is a price taker, a monopoly firm is a price maker.

Natural monopolies (p. 302) An industry is a natural monopoly when a single firm can supply a good or service to an entire market at a lower cost than could two or more firms. A natural monopoly arises when there are economies of scale over the relevant range of output.

Oligopoly (p. 330) One type of imperfectly competitive market is an oligopoly, which is a market with only a few sellers, each offering a product that is similar or identical to the

products offered by other sellers.

The essence of an oligopolistic market is that there are only a few sellers. As a result, the actions of any one seller in the market can have a large impact on the profits of all the other sellers. Oligopolistic firms are interdependent in a way that competitive firms are not.

Figure 48 MFT, Telenor and Ooredoo are dominating the mobile network in Myanmar

As the number of sellers in an oligopoly grows larger, an oligopolistic market looks more and more like a competitive market. The price approaches marginal cost, and the quantity produced approaches the socially efficient level.

Monopolistic competition (p. 330) This describes a market structure in which there are many firms selling products that are similar but not identical. In a monopolistically competitive market, each firm has a monopoly over the product it makes, but many other firms make similar products that compete for the same customers.

To be more precise, monopolistic competition describes a market with the following attributes:

— Many sellers where many firms competing for the same group of customers.

- Product differentiation where each firm produces a product that is at least slightly different from those of other firms. Thus, rather than being a price taker, each firm faces a downward-sloping demand curve.
- Free entry and exit when firms can enter or exit the market without restriction.

Thus, the number of firms in the market adjusts until economic profits are driven to zero.

Perfectly competitive (Mankiw p. 330) A competitive market, sometimes called a perfectly competitive market, has two characteristics:

- There are many buyers and many sellers in the market.
- The goods offered by the various sellers are largely the same.

As a result of these conditions, the actions of any single buyer or seller in the market have a negligible impact on the market price. Each buyer and seller takes the market price as given.

Role of advertising (Mankiw p. 338–339) It is nearly impossible to go through a typical day in a modern economy with-out being bombarded with advertising. Such behavior is a natural feature of monopolistic competition (as well as some oligopolistic industries). When firms sell differentiated products and charge prices above marginal cost, each firm has an incentive to advertise to attract more buyers to its particular product.

The amount of advertising varies substantially across products. Firms that sell highly differentiated consumer goods, such as over-the-counter drugs, perfumes, soft drinks, razor blades, breakfast cereals and dog food, typically spend between 10% and 20% of revenue for advertising. Firms that sell industrial products, such as drill presses and communications satellites, typically spend very little on advertising. And firms that sell homogeneous products, such as wheat, peanuts or crude oil, spend nothing at all.

Because monopolistically competitive firms produce differentiated products, each firm advertises to attract customers to its own brand. To some extent, advertising manipulates consumers' tastes, promotes irrational brand loyalty and impedes competition. To a larger extent, advertising provides information, establishes brand names of reliable quality, and fosters competition.

Section questions: Think about the four market structures. What is the benefit of a competitive market? What are the drawbacks? What about for a monopoly?

8.4 THE MARKET FORCES OF DEMAND AND SUPPLY

Supply and demand are the two words economists use most often — and for good reason. Supply and demand are the forces that make market economies work. They determine the quantity of each good produced and the price at which it is sold.

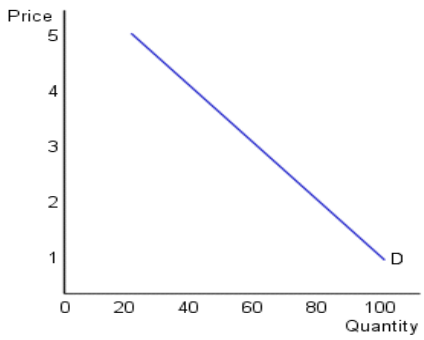
The terms supply and demand refer to the behavior of people as they interact with one another in markets. In a market economy, the price of a good is determined by the interaction of demand and supply.

Demand (Mankiw p. 67) Demand is the relationship between price and quantity demanded in a given time period. The quantity demanded is the amount of good buyers are willing to purchase at a set price. Many things determine the quantity demanded of any good, but in our analysis of how markets work, one determinant plays a central role — the price of the goods.

DEMAND SCHEDULE

Price	Quantity Demanded
1	100
2	80
3	60
4	40
5	20

DEMAND CURVE



This table is a demand schedule, a table that shows the relationship between the price of goods and the quantity. Demanded, holding constant everything else that influences

how much of the goods the consumers want to buy.

Law of demand (Mankiw p. 67) An inverse relationship exists between the price of a goods and the quantity demanded in a given time period. Determinants of demand include the following:

- Income
- Related goods
- Tastes
- Expectations
- Number of buyers

Income (p. 70) If someone's income is lowered they will be less willing to spend money on goods and vice versa.

- Normal goods
- Inferior goods

Goods are normal goods if an increase in income results in an increase in the demand for the goods. Goods are inferior goods if an increase in income results in a reduction in the demand for the goods.

Prices of related goods (Mankiw p. 70) Substitutes are goods which cause a decline in the demand of another good if its price declines. When a fall in the price of the goods reduces the demand for another goods, the two goods are called substitutes. Substitutes are often pairs of goods that are used in place of each other, such as coffee and tea, hot dogs and hamburgers, sweaters and sweatshirts, and movie tickets and DVD rentals.

Figure 49 Tea and coffee substitutes

Complement are goods which causes an increase in the demand of another goods if its price declines.

When a fall in the price of the goods raises the demand for another goods, the two goods are called complements. Complements are often pairs

of goods that are used together, such as DVD and DVD players, gasoline and automobiles, computers and software, and coffee and sugar.

Tastes (Mankiw p. 70) The idea that if a buyer's perception of benefits from buying goods changes so will the buyers willingness to purchase the good. The most obvious determinant of the demand is taste. Economists normally do not try to explain people's tastes because tastes are based on historical and psychological forces that are beyond the realm of economics. Economists do, however, examine what happens when tastes change.

Expectations (Mankiw p. 71)

- A higher expected future price will increase current demand
- A lower expected future price will decrease current demand
- A higher expected future income will increase the demand for all normal goods
- A lower expected future income will reduce the demand for all normal goods

Number of buyers (Mankiw p. 71)

- The market demand curve consists of all the individual demand curves put together
- So if there are more consumers in the market the market demand will increase

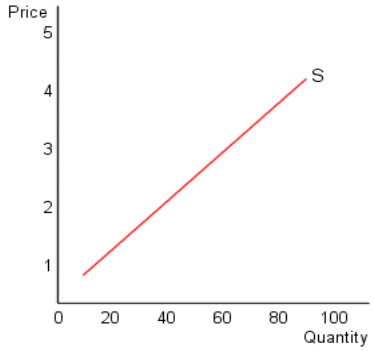
In addition to the preceding factors, which influence the behavior of individual buyers, market demand depends on the number of these buyers.

Supply (Mankiw p. 73) There is the relationship that exists between the price of a good and the quantity supplied in a given time period. The quantity supplied of any good or service is the amount that sellers are willing and able to sell. There are many determinants of quantity supplied, but once again, price plays a special role in our analysis.

SUPPLY SCHEDULE

Price	Quantity Supplied
1	16
2	39
3	62
4	85

SUPPLY CURVE



This is the supply schedule, a table that shows the relationship between the price of a good and the quantity supplied, holding constant everything else that influences how much producers of the good want to sell.

The curve relating price and quantity supplied is called the supply curve. The supply curve slopes upward because, other things equal, a higher price means a greater quantity supplied.

Law of Supply (Mankiw p. 73–76) This relationship between price and quantity supplied is called the law of supply: Other things equal, when the price of a good rises, the quantity supplied of the good also rises, and when the price falls, the quantity supplied falls as well.

The law of supply is the result of the law of increasing cost—the principle that once all factors of production (land, labour, capital) are at a maximum output and efficiency producing additional units will cost more on average.

- As the quantity of a good produced rises, the marginal opportunity cost rises.
- Sellers will only produce and sell an additional unit of a good if the price rises above the marginal opportunity cost of producing the additional unit.

Determinants of supply (Mankiw p. 73–76)

- Price received by supplier
- Input price
- Technology

- The expectations of producers
- The number of producers
- Relative goods

Price Received by Supplier (Mankiw p. 75)

- The more money the supplier receives for the goods he's selling the more willing he/she will be to sell it

Price of resources (Input Price) (Mankiw p. 75)

- Inputs are the goods the supplier has to purchase in order to produce the supply
- As the price of a resource rises, profitability declines, leading to a reduction in the quantity supplied at any price

Technological improvements (Mankiw p. 76)

- Technological improvements (and any changes that raise the productivity of labor) lower production costs and increase profitability

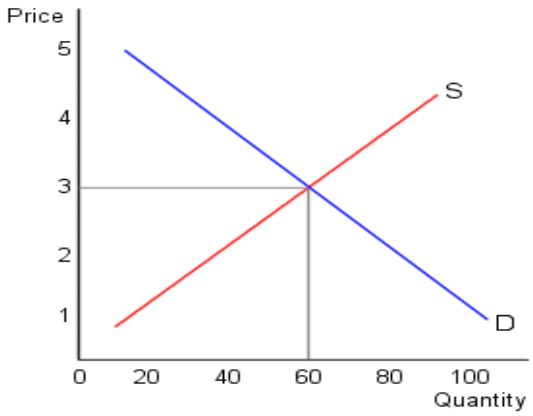
Expectations and supply (Mankiw p. 76)

- An increase in the expected future price of goods or service results in a reduction in current supply
- The supplier will hold off on selling his goods if he can sell them for a greater profit later

Prices of other goods (Mankiw p. 76)

- More than one firm produces and sells the same goods or relative goods
- Because of this firms compete with each other to sell more goods and in order to do so they have to lower their prices below that of their competition
- Without this effect all markets would be monopolistic and we would be in trouble

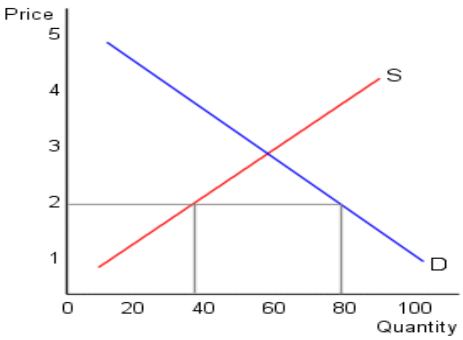
Market equilibrium (Mankiw p. 77) There is one point at which the supply and demand curves intersect. This point is called the market's equilibrium. The price at this intersection is called the equilibrium price, and the quantity is called the equilibrium quantity.



At the equilibrium price, the quantity of the goods that buyers are willing and able to buy exactly balances the quantity that sellers are willing and able to sell. The equilibrium price is sometimes called the market-clearing price because, at this price, everyone in the market has been satisfied; buyers have bought all they want to buy, and sellers have sold all they want to sell.

Price above equilibrium (Mankiw p. 77)

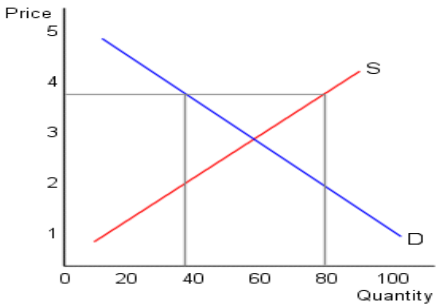
If the price exceeds the equilibrium price, a surplus occurs



There is a surplus of the goods—suppliers are unable to sell all they want at the going price. A surplus is sometimes called a situation of excess supply.

Price below equilibrium (Mankkiw p. 78)

If the price is below the equilibrium a shortage occurs:



There is a shortage of the good—demanders are unable to buy all they want at the going price. A shortage is sometimes called a situation of excess demand.

Price Ceiling

- Price ceiling is legally mandated maximum price.
- Purpose is to keep price below the market equilibrium price.

Price Floor

- Price floor is legally mandated minimum price.
- The price floor is designed to maintain a price above the equilibrium level.

Section questions: What is the difference between demand and supply? How do they work together? Can you give concrete examples of how demand and supply move together?

8.5 THE IMPACT OF ECONOMIC ISSUES

(Mankiw p. 643–653)

Economic growth—Most governments want economic growth. Growth should result in the following:

- more goods being demanded and produced
- people earn more and can afford more goods
- more people should have jobs.

On the face of it, therefore, growth should result in an improved standard of living in a country and higher profitability for businesses.

However, growth is not without its problems.

- Is economic growth fast enough to keep up with population growth?
- Growth rates have to exceed inflation rates for benefits to arise (i.e. real growth has to occur).
- Growth may be in 'demerit' goods, such as illegal drugs.
- Growth may be at the expense of the environment or through exploitation of the poor.
- The gap between rich and poor may grow, as the benefits from growth are not evenly distributed.

- Measurement of growth is difficult given the black market and goods that are excluded from national income calculations.
- Rapid growth means rising incomes and this often 'sucks in' imports, worsening the balance of trade, than benefiting domestic producers.

Inflation Most governments want stable prices and low inflation. Inflation is a continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative to available goods and services. The main reasons given include the following:

- Inflation causes uncertainty and stifles business investment.
- Not all income rise in the line with inflation—the poor and those on fixed incomes suffer the most.
- In extreme cases of inflation, the function of money may break down, resulting in civil unrest and even war.
- Inflation distorts the working of the price mechanism and is thus a market imperfection.

Note that high inflation can affect savings in different ways:

- people who save to spend later (a "transactions motive") will save less to avoid the purchasing power of their money being eroded.
- people who save in case something bad happens (a 'precautionary motive') will save more due to the uncertainty inflation creates.

Demand-pull inflation

- If demand for goods and services in the economy is growing faster than the ability of the economy to supply these goods and services, prices will increase—the classic case of too much money chasing too few goods.
- Demand-side policies would focus on reducing aggregate demand through tax raises, cuts in government spending and higher interest rates.

Cost-push inflation

- If the underlying cost of factors of production increases, this is likely to be reflected in an increase in output prices as firms seek to maintain their profit margins.

Imported inflation

- In an economy in which imports are significant, a weakening of the national currency will increase the cost of imports and could lead to domestic inflation.
- This can be reduced by policies to strengthen the national currency (see below).

Monetary inflation

- Monetarists argue that inflation can result from an over expansion of the money supply. In effect increasing the money supply increases purchasing power in the economy, boosting demand for goods and services. If this expansions occurs faster than expansion in the supply of goods and services inflation can arise.
- The main monetarist tool for controlling such inflation is to reduce the growth in the money supply through higher interest rates.

Expectations effect

- If anticipated levels of inflation are built into wage negotiations and pricing decision then it is likely that the expected rate of inflation will arise. Whilst the expectations effect is not the root cause of inflation it can contribute significantly to an inflationary spiral, particularly when underlying levels of inflation are high and rising.
- This spiral can be managed by a 'prices and incomes' policy where manufacturers agree to limit price rises in response to union agreements to limit wage claims.

Unemployment

Even in a healthy economy some unemployment will arise as people change jobs. However, mass unemployment is a problem due to the following:

- The government has to pay out benefits to the unemployed at a time when its tax receipts are low. This can result in the government having to raise taxes, borrow money and cut back on services.
- Unemployment has been linked to a rise in crime, poor health and a breakdown in family relationships.
- Unemployment is a waste of human resources and can restrict economic growth.

High unemployment could give firms higher bargaining power allowing them to pay lower wages to prospective employees. If a country faced with both high inflation and high unemployment is called as stagnation. Economic stagnation means that there is

little growth in the economy for a prolonged period of time.

Sections questions: What problems with growth listed above seem the most important? Why?

8.6 PRICE ELASTICITY OF DEMAND

(Mankiw p. 90–91)

Price elasticity of demand (PED) measures the degree to which the number of units demanded by customers reacts to changes in the sales price.

Figure 50 Elastic demand

Products that are highly elastic will see a large movement in demand with even a small change in price. Inelastic products are those that will see little or no change in demand as the price changes.

Figure 51 Inelastic demand

Inelastic products tend to be those that are considered necessities (such as bread and milk), while elastic items tend to be goods that are readily available in the market and that are not considered essential (such as holidays and table computers).

Figure 52 Rice—an essential good that falls under inelastic demand

Figure 53 Cake—a non-essential good that falls under elastic demand

Factors affecting PED

These normally include:

- The availability of substitutes
- The amount of income spent on the product or service
- Whether the item is a necessity
- The duration of the change in price

PED is important because it allows firms to decide on an optimum price level of its goods and services. It also helps decide how much price reduction is necessary to increase revenue to a certain target or what level of price increase is optimal.

Section questions: How do you calculate price elasticity? Why is it important to do this?

CHAPTER 9

OPERATIONAL MANAGEMENT

FACILITY LOCATION
PURCHASING
WAREHOUSE MANAGEMENT
INVENTORY MANAGEMENT
LOGISTICS AND DISTRIBUTION MANAGEMENT
PRODUCTIVITY

9.1 FACILITY LOCATION

(Anderson et al. p. 7–11 and Scarborough p. 542–545)

Operations management is the development, execution and maintenance of the processes that achieve your goals. An operations plan gives you information on how the product of are making will be produced or the service will be provided to the customer. Section VIII. Location and Layout of the YE4M business plan asks you to describe all of the details regarding the where you will setup your business/factory, the analysis of why the location is chosen and the layout of the physical space.

At some point, almost every organisation must decide on the location of their facilities. The most common approach to selecting a site for a new location is to do a cost-benefit analysis. Cost-benefit analysis is a way of analysing choices when making a business decision. What will be the costs and what will be the benefits of the choice you are making? How do you weigh these factors?

When thinking about a location to build/rent facilities, each possible location will have certain benefits. Benefits to be evaluated are:

- accessibility of customers
- location of major competitors
- general quality of working conditions
- nearness to restaurants and shops that would be desirable for both employees and customers
- security and safety
- overall attractiveness to the customer and to the employees

Once the entrepreneurs have evaluated the worth of each benefit, they can divide total benefits by total benefits costs for each location, and then select the location with the highest ratio. Remember that renting a space just for your business is not necessarily the best option. Sharing with other companies or finding places where you can do things for cheaper is important for an entrepreneur. In Yangon, there are many ways to be creative with your facility location. As this will be one of your highest costs, think it through.

Section questions: Have you decided where you want to establish your business? If you

are producing something, where will you setup the facility? Why? What research have you done for your choosing the location of your business?

9.2 CAPACITY PLANNING

(Anderson et al. p. 26 and Scarborough p. 572)

Capacity is the most common way of measuring how you are doing in terms of production. Capacity is how much output can be produced in a specific period of time with no losses or time wasted not using resources. Capacity planning is the determination and adjustment of an organisation's ability to produce products or services to match demand. For example, if a bank anticipates a customer increase of 20% over the next year, capacity planning is the procedure whereby it will ensure that it has sufficient capacity to service that demand.

Organisations can do several things to increase capacity. One is to create additional shifts and hire people to work on them. A second is to ask existing people to work overtime to add to capacity. A third is to outsource or sub-contract extra work to other firms. A fourth is to expand a plant and add more equipment. Each of these techniques will increase the organisation's ability to meet demand without risk of major excess capacity.

The biggest problem for most organisations, however, is excess capacity. Too much staff or too many products can lead to losses. When misjudgments occur, transportation companies have oil tankers sitting empty in the harbor, oil companies have refineries sitting idle, semiconductor companies have plants shuttered, developers have office buildings half full, and the service industry may have hotels

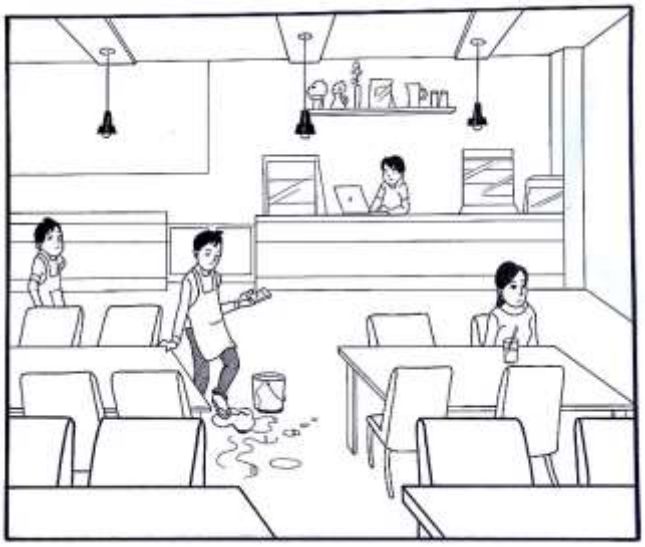


Figure 54 Excess capacity

operating at partial capacity.

The challenge is for managers to add capacity as needed without excess. For many of today's companies, the solution is finding ways to contract work to other businesses. New organisational forms such as the networks organization (a company outsources work) and the virtual organisation (a company that is mostly online and receives inventory only when needed) enable companies to quickly ramp up production to increase capacity and dissolve partnerships when extra help is no longer needed.

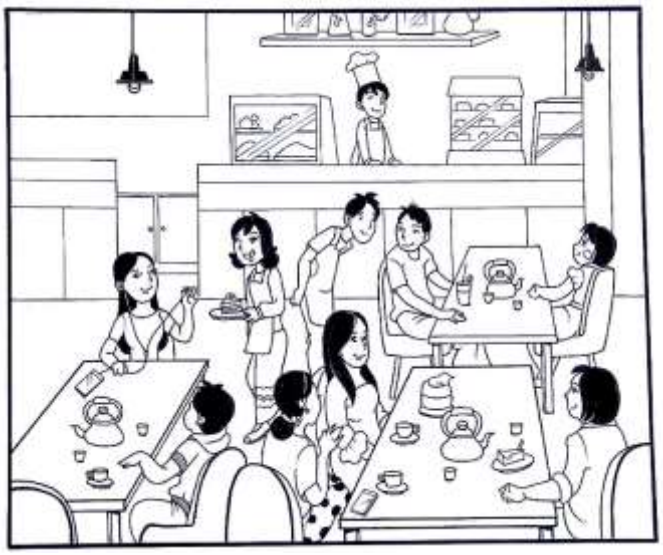


Figure 55 Balance in capacity

Section questions: How would you determine the best way for your business to increase capacity? What are the factors that contribute to this decision (money, time, staff,etc.)?

9.3 PURCHASING

(Scarborough p. 581–583, 589 and Anderson et al. p. 36–40)

The role of purchasing department will vary according to the type of business. In manufacturing over half the total costs may be attributable to raw materials and components. Similarly, in retailing a large proportion of all expenditure will be on goods bought in for resale. Supermarkets and discount stores, in particular, rely on purchasing to provide a reasonable profit margin while retaining their competitive edge.

For many organisations though, the purchasing function may have a visible effect on overall profitability. Consider the effect upon the organisation when goods of the wrong type or quality are purchased or where too high a price is paid. Buying too large a quantity leads to an excessive investment in stock and a potential of no longer being useful, while purchasing too little may result in costly production stoppages.

A successful purchasing policy will avoid the problems mentioned above and will take into account factors such as those listed below.

Quantity—the quantity purchased should always be sufficient to meet current demand. Regular purchases of small quantities minimise stockholding costs but prevent the negotiation of lower prices for buying in bulk.

Quality—substandard raw materials or components may be purchased cheaply, but in the long run, will injure the organisation's reputation with the customer. A system of checks should be instituted to ensure that materials and components ordered are of the quality required and that those received are of the quality ordered. It is equally bad for the organisation to purchase items that are of a higher quality than needed. The organisation will then be paying a higher price than is necessary.

Price—businesses often hope to purchase materials as cheaply as possible. Price may, however, have to be sacrificed should any item be needed urgently. However, buying urgently should not mean that quality is scarified.

Delivery—all contracts should specify a delivery date, and the importance of adhering to this date should be made clear to the supplier. Lists of alternative suppliers should be maintained in case of non-delivery.

Supplier—the reputation of the supplier in terms of price, quality, service and reliability should be assessed. Alternative sources of supply should always be identified for all essential raw materials and components.

Estimates of future demand—the level of stocks held by either a manufacturer or a retailer will reflect the marketing department's prediction of future sales. In Myanmar, the retailers need to hold extra stocks during the ThiDinGyut Period (usually in October).

Method of purchase—this will not be the same for all items used by the organisation. Where it is necessary to ensure continuity of supply, as in flow production (usually assembly-production), a contract to purchase an agreed amount over a specified period will be entered into. As part of the agreement it may be stipulated when deliveries are required, thus reducing stockholding costs. Such an agreement may also be used where there is little likelihood of variation in the price of the items ordered over the period of

the contract. Apart from ensuring continuity of supply, the organisation is also able to estimate accurately its cost of production for the forthcoming period.

Section questions: How will you determine the quantity and quality of the materials that you need for your business? Why are these factors important in your decision-making? What research have you done to choose the right supplier? Why have you chosen this company/option?

9.4 WAREHOUSE MANAGEMENT

(source unknown)

The warehouse department is responsible for the control of all purchases made by the organisation from the time of receipt until their issue to the production process or other department. Stock control involves not only controlling and issuing stock, but also the inspecting and reordering of stock and checking the accuracy of stock records. There is a process to this, which usually includes the following steps:

- On receipt of stock items, the warehouse clerk will check what has arrived against the purchase order
- Detailed inspection of the order takes place. The nature of the inspection varies according to the item concerned but could include weight, dimensions, colour, hardness or chemical composition
- The materials will then be passed to the appropriate storage area where, after inspection, they will be entered in the storage records. The storage records maintain a running total for each item of stock with '"receipts in" being added to the existing balance when items come in and 'issues out' when items are taken out
- The information in the storage records is duplicated by the use of 'bin cards' that are found with the storage containers in which the stocks are physically located
- A decision also has to be taken as to how much of a product to order. To determine the most economic order quantity, we need to compare order processing costs and the costs of stockholding

Figure 56 Warehouse management

The warehouse is also responsible for the storage and safe keeping of other articles that the organisation owns. These would include work in progress, finished goods, and maintenance and repair items, and in some cases, canteen and welfare items. The principles of storage control, as outlined above, applies equally to these other stocks.

All organisations hold stocks of "materials" against future demand and, in many cases, the cost of doing so is high. A good system of stores control may reduce this cost considerably by ensuring:

- Stocks of each item are not too high or too low.
- Poor storage layout does not result in excessive lighting and heating bills, or deterioration of stock, for example through rusting or breakages.
- Stealing/theft is kept to a minimum.

Section questions: Will you have your own warehouse? If so, what do you think about the advice above? If your business does not need its own warehouse, where will you be storing your materials? Have a thought about a system that will help you keep track of the materials? What will the system look like?

9.5 INVENTORY MANAGEMENT

(Scarborough p. 612–615 and Anderson et al. p. 20–22)

Inventory is the goods the organisation keeps on hand for use in the production process. Inventory management is vitally important to organisations, because inventory sitting idly on the shop floor or in the warehouse costs money. Today inventory is recognised as an unproductive asset in cost-conscious firms. Money not tied up in inventory can be used in other productive ventures.

Most organisations have three types of inventory: raw materials, work in process and finished goods prior to shipment.

Figure 57 Raw inventory

Raw materials inventory includes the basic inputs to the business' production process. This inventory is cheapest, because the business has not yet invested labor in it.

Work-in-process inventory includes the materials moving through the stages of the production process that are not completed products.

Finished-goods inventory includes items that have passed through the entire production process but have not been sold. This is highly visible inventory.

Companies schedule orders to eliminate excess inventory. Their suppliers have refined their delivery systems so that the stores receive only the products needed to meet customer purchases.

Economic order quantity Two basic decisions that can help minimise inventory are (1) how much raw materials to order and (2) when to order from outside suppliers. Ordering the minimum amounts at the right time keeps the raw materials, work-in-process and finished-goods inventories at low levels.

Economic order quantity (EOQ) is the number of units that a company should add to their inventory with each order to minimise the total costs of inventory (for instance holding costs, order costs, shortages, etc.). EOQ is designed to minimise the total of ordering costs and holding costs for inventory items.

Ordering costs are the costs associated with actually placing the order, such as postage, receiving and inspection. Holding costs are costs associated with keeping the item on hand, such as storage space charges, finance charges and materials-handling expenses.

The EOQ calculation indicates the order quantity size that will minimise holding and ordering costs based on the order the business' use of inventory. The EOQ formula includes ordering costs ©, holding (H), and annual demand (D). (Scarborough p. 571)

In general, companies keep more safety stock when demand for items is highly variable. When demand is easy to predict, the safety stock may be lower.

Just-in-time inventory (JIT) are inventory systems designed to reduce the level of an organisation's inventory and its associated costs, aiming to push to zero. Sometimes these systems are referred to as stockless systems, or zero inventory systems.

Each system centers on the concept that:

- Suppliers deliver materials only at the exact moment needed, thereby reducing raw material inventories to zero.
- Work-in-process inventories are kept to a minimum because goods are produced only as needed to service the next stage of production.
- Finished-goods inventories are minimised by matching them exactly to sales demand. Just-in-time systems have tremendous advantages.
- Reduced inventory level frees productive capital for other company uses.

The coordination required by JIT demands that information be shared among everyone in the supply chain.

Just-in-time inventory systems also require excellent employee motivation and cooperation. Workers are expected to perform at their best because they are entrusted with the responsibility and authority to make the zero inventory system work.

Material requirements planning (MRP) The EOQ formula works well when inventory items are not dependent on one another. A more complicated inventory problem occurs with dependent demand inventory, meaning that item demand is related to the demand for other inventory items.

The most common inventory control system used for handling dependent demand inventory is material requirements planning (MRP). MRP is a dependent demand inventory planning and control system that schedules the exact amount of all materials required to support the desired end product. MRP is computer based and requires

sophisticated calculations to coordinate information on production scheduling, inventory location, forecasting and ordering. Unlike with EOQ, inventory levels are not based on past consumption; rather, they are based on precise estimates of future needs for production.

Section questions: Why do you think it is important to know exactly how much inventory you have? Why is it important to know when to order more? How can you be sure that you have the right idea of the amount of inventory needed and to know when to order more?

9.6 LOGISTICS AND DISTRIBUTION MANAGEMENT

(Scarborough p. 610–612)

Logistics refers to managing the movement of materials within the facility, the shipment of incoming materials from suppliers and the shipment of outgoing products to customers.

Moving finished products out to customers is usually referred to as distribution or order fulfillment. The faster and more accurately a company can fill customer orders, the lower the costs for the organisation and the greater the likelihood that the customers will return.

Traditional organisations are also finding new ways to deliver products faster and at a lower cost by using the Internet. In the latest advance in inter-organisational collaboration, some companies share transportation information and resources with unrelated companies, even competitors, so they can share truck space and avoid hauling an empty trailer on a return trip.

Section questions: What do you know about the distribution companies you will be working with? If nothing, how will you go about researching to find the best companies to work with?

9.7 PRODUCTIVITY

Productivity is significant because it influences the well-being of the entire society as well as of individual companies. The only way to increase the output of goods and services to society is to increase organisational productivity.

In simple terms, productivity is the organisation's output of goods and services divided by its inputs. This means that productivity can be improved by either increasing the amount of output using the same level of inputs or reducing the number of inputs required to produce the output. Sometimes a company can even do both.

When an organisation decides that improving productivity is important, there are three places to look: technological productivity, worker productivity and managerial productivity.

Increased technological productivity refers to the use of more efficient machines, robots, computers and other technologies to increase outputs. New technology can increase productivity. Outsourcing can also increase productivity because a specialised firm can afford to invest in the most modern technology related to the service it provides. (See Wikipedia article on Productivity Improving Technologies)

Increased worker productivity means having workers produce more output in the same time period. Companies can improve worker productivity by establishing the means for existing employees to do more by working harder or improving work processed. Careful—this does not mean overworking the employees. Rather it is about reshaping things. Employees may simply need more knowledge, more resources or improved task or workplace design. Many of the leadership and management approaches can enhance worker productivity by motivating and inspiring employees. (See Wikipedia article on Workforce Productivity)

Increased managerial productivity simply means that managers do a better job of running the business. The real reason for product problems is poor management. W. Edwards Deming (an American engineer, professor and author) proposed specific points for telling management how to improve productivity.

Management productivity improves when managers emphasise quality over quantity,

break down barriers and empower their employees, and do not overhang, using numbers. Managers can learn to use reward systems, employee involvement, teamwork, and other management techniques that have been described throughout this book. However, it is important for managers to consider the linkage between these techniques and the company's strategy—not just too blindly insert a technique into the organisation's activities. Knowledge management efforts succeed when managers establish a strategy-related focus for what information is to be shared, they measure the results. (See https://deming.org/management-system/fourteenpoints)

Section questions: What does productivity mean to you? Do you think setting up a system within your business (operations, managerial, etc.) a good way to help with productivity? Why or why not?

CHAPTER 10

SALES MANAGEMENT

THE RELATIONSHIP BETWEEN SELLING AND MARKETING

SALES ROLES

CHARACTERISTICS AND QUALITIES OF A SALESPERSON

STAGES IN THE SELLING PROCESS

10.1 THE RELATIONSHIP BETWEEN SELLING AND MARKETING

(Scarborough p. 299–301)

The adoption of the marketing concept not only changes the role of the sales function itself but also gives rise to important changes and implications for the relationship between selling and marketing.

When adopting the marketing concept, the sales function may become subservient to the marketing function. The sales and marketing functions must work together and be effectively coordinated in order to satisfy customer needs. It is important, then, to develop effective organisational and planning relationships between marketing and selling.

The sales function should be viewed as an integral part of the organisation's marketing mix. A marketing mix is the set of marketing tools a business uses to pursue its marketing objectives in the target market. Elements to the mix include:

- product decisions
- price decisions
- place of distribution
- promotional decisions

Within the marketing mix, selling is best identified as being part of the promotional decisions element. This means that the sales function should be planned in relation to, and coordinated with, advertising, sales promotion, publicity and public relations (PR).

The selling function must play its part in the identification and analysis of customer's needs and wants.

Section questions: Have you ever been a salesperson? If yes, what was the most important thing about your job? If no, what are some of the things that you think are important when you are buying something (the person selling, the way the product looks, etc.)?

10.2 SALES ROLES

There are many roles a salesperson can take on in your business. Entrepreneurs often have to juggle these roles on their own when their company is starting out. As it grows, people are hired to fulfill different tasks. Below are some examples of salespeople that fulfill different needs within a business.

Passive order takers The salesperson takes orders from the customer. In the retail context, the salesperson receives payment for the goods and wraps them. The salesperson can also take orders over the telephone or via Internet.

Delivery sales people A salesperson may deliver a good/product to a retail outlet. No attempt is made to sell, and orders are made or changed upon the request of the customers.

Order creators The salesperson persuades someone to specifically purchase a product. In the building industry it is often the architect who will specify which supplier's products are to be used in a building. The salesperson may visit the architect to try to persuade him to specify the seller's product.

Order getters The salespersons actively persuade customers to place orders. This is probably what most people think of when they think of the sales task. Some salespersons sell to consumers, either in their homes or in retail outlets. Others sell to organisations and/ or institutions. Some even sell to new markets and new customers.

Clearly these different types of sales roles are very different in terms of what is required of the salesperson in terms of skills, product knowledge, personality characteristics, and so on. Therefore, there is no such thing as the 'typical salesperson'. However, it is possible to describe in general terms some of the characteristics that make a good salesperson.

Section questions: Will you be hiring salespeople? What role will she/he have on your team?

10.3 CHARACTERISTICS AND QUALITIES OF A SALESPERSON

(see https://www.entrepreneur.com/article/239465 and http://www.slideshare.net/CommLab/7-musthave-skills-for-a-sales-person-and-the-role-of-training)

Substantial effort has gone into trying to identify the characteristics and qualities of an effective salesperson. Although there may not be a typical salesperson, some of the likely characteristics and qualities to be found in an effective salesperson are outlined below.

Personal characteristics The important personal characteristics of an effective salesperson are:

- High energy level
- Focused
- Respectful
- Self-confidence
- Self-motivation/ Initiative
- Good listener
- A desire to be successful, particularly as a reward
- An ability to empathise with other people (understand other people's feelings)
- Coachable
- Good health, honesty and sobriety

Skills and training Training a salesperson will be important, especially in terms of what they know about the product. The person cannot complete a sale with a customer without some basic knowledge. In addition to the personal characteristics, the salesperson also needs the following:

- Good company knowledge
- Good product knowledge
- Effective selling skills
- Strong interpersonal skills.

Figure 58 YE4M students taking part in a sales conversation role play

Whether salespersons are born or made, the evidence is in favor of the 'made' argument. There is no such thing as a typical salesperson or sales personality, and certainly the stereotype of the extrovert, fast-talking salesperson is far removed from the reality of what is required in an effective salesperson today.

There are many things to keep in mind when training your salesforce, whether it is just one person or an entire group. Entrepreneur magazine provides some useful advise on this matter. (https://www.entrepreneur.com/article/80602)

- Evaluate your salesforce periodically to see if they are meeting the needs of your business.
- Decide what you want your salespeople to do for your business
- Measure the sales productivity. This can be done in Kyats/Dollar amounts by dividing the volume of sales by the number of salespeople. Keep in mind that you should look at this on a monthly basis to see trends. If someone is selling products well the first time they meet a customer but cannot encourage repeat buying, you may need to make some changes
- Hire the right amount of salespeople and make sure you take the time to train them
- Analyse what type of salespeople you need. For instance, it is possible that you need a mixture of people who sell well on the phone and others who sell well in person
- Make sure the sales manager (if it is not you) knows how to motivate and help your salespeople improve

Section questions: Are there any characteristics that you would add to the list above? What characteristics do you like in a salesperson? Have you thought about how to train your salesperson? If you will be doing the selling, will you get some training?

10.4 STAGES IN THE SELLING PROCESSES

(For more information, visit www.mbaskool.com/business-concepts/marketing-and-strategy-terms/2069-selling-process.html)

Assume the selling situation is one of a salesperson selling to manufacturers and wanting to expand sales by finding new customers. The stages in this selling process are as follows.

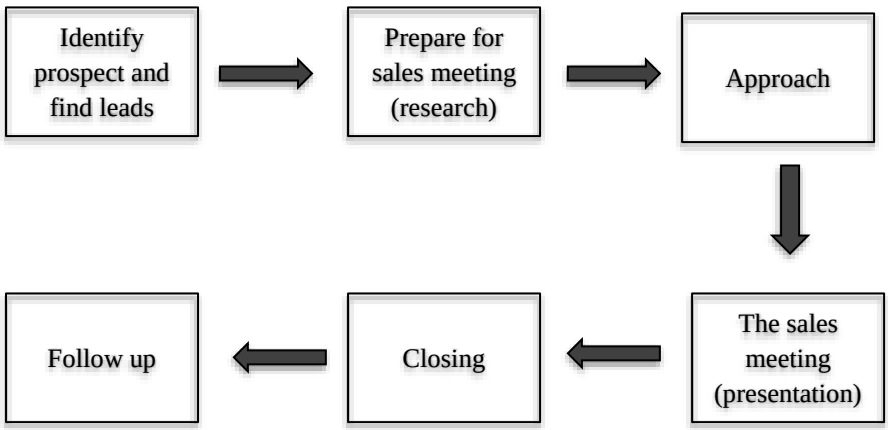


Figure 59 The selling process

Creating sales opportunities: identifying prospects and generating sales leads
The salesperson tries to assess who to sell to. This includes the location and possibly contact potential new customers. This process requires research and analysis and can be done in various ways. For example, the salesperson may follow up leads generated from existing customers or from general enquiries made to the sales office. Ideally, the outcome of this stage should be the generation of firm appointments with potentially interested customers. At this stage the salesperson should prepare for the selling task ahead and ideally should aim to produce a plan for each individual selling situation.

Preparing for the sales meeting During this step, the salesperson does research on the potential customer, and prepares for the appointments arranged with customers. The salesperson should learn as much as possible about the target company and the

individual customers within it. The salesperson should plan in advance as much as possible of the sales meeting by thinking about any possible negative feedback and objections that a customer may have by preparing rebuttals and negotiating tactics. The salesperson should aim to produce a plan for each individual selling situation.

The approach The salesperson then meets with the customer in person, over the phone or the computer. Particularly with new customers, it is important to create a positive relationship. The salesperson's manner and appearance must be appropriate to the sales context and all customers must be dealt with in a courteous manner.

The sales meeting

Need and problem identification—the sales meeting should start with the salesperson attempting to identify the prospective customer's needs and wants. This will require careful questioning, the use of open questions and the skills of effective listening.

The sales presentation / demonstration—having listened to the customer and identified the customer's needs, the salesperson can then proceed to make a sales presentation reflecting the needs of the customer. This sales presentation should attempt to move the customer through the stages of interest and desire as regards to the salesperson's products and services. The salesperson must be able to demonstrate product features and customer benefits. Demonstrations are essential tools in proving the benefits of the product.

Negotiating and handling objections—at this stage of the selling process, the salesperson is moving the customer towards making an order. Therefore the salesperson will need to use negotiation skills and, in particular, must know how to spot and deal with any customer objections. Customer objections need to be clarified by tactful questioning and sympathetic discussion. Relevant information and proposals to meet objections must then be provided for the customers. The aim is to resolve all customer objections.

Closing the sale If the salesperson has done her/his job well, at this stage it should be possible to close the sale. In order to do this, the salesperson must be able to interpret if and when the customer is ready. The aim of the close of the sale is to obtain a commitment from the customer to purchase the product / service.

Follow up Having obtained the order, it is important that the salesperson follows up the sale. For example, the salesperson should contact the customer to inquire if she/he is satisfied with the process and the product/service. This is a way to ensure repeat business when appropriate. Effective follow-up and after-sales service will make the customer feel good and will maximise all opportunities for repeat business.

Section questions: Have you ever participated in a sales meeting before? If yes, did you/your colleagues follow these steps? What was differently? If you have not participated in a sales meeting, do the steps make sense? Would you follow this structure? Why or why not?

CHAPTER 11

MARKETING MANAGEMENT

DEFINING MARKETING AND MARKETING MANAGEMENT
CORE CONCEPTS OF MARKETING
MARKETING RESEARCH
MARKETING MIX (4PS)
GUERRILLA MARKETING
SERVICE MARKETING (3 PS)
CUSTOMER SERVICE STRATEGY
MARKETING PLAN

11.1 DEFINING MARKETING AND MARKETING MANAGEMENT

(Kotler and Keller p. 20)

Marketing is a terms used to describe the activities that are involved in making people aware of a company's products, and the selling and distributing of those products. It is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

Marketing is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is "meeting needs profitably."

Marketers must decide what features to design into a new product or service, what prices to set, where to sell products or offer services, and how much to spend on advertising, sales, the Internet or mobile marketing. They must make those decisions in an Internet-fueled environment where consumers, competition, technology, and economic forces change rapidly and the consequences of the marketer's words and actions can quickly multiply.

Markets (Kotler and Keller p. 8) Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market).

Section questions: What do you think of when you hear the world "marketing"? What do you think it entails? Do you have some ideas on what marketing will mean in your business?

11.2 CORE CONCEPTS OF MARKETING

(Kotler and Keller p. 10–11)

To understand the function of marketing, we need to understand the following core set of concepts.

A human need is a state of felt deprivation of some basic satisfaction. E.g. people require food, clothing, shelter, safety, a sense of belonging and self-esteem. Types of needs:

- Stated needs: the customer wants an inexpensive car
- Real needs: wants a car with operating cost, not its initial low price
- Unstated needs: the customer expects good service from the dealer
- Delight needs: would like the dealer to include an onboard navigation system
- Secret needs: the customer wants friends to see him as savvy consumer

Wants are the forms taken by human needs which are shaped by culture and individual personalities. People have almost unlimited wants but limited resources. People want to choose products that provide the most value and satisfaction for their money. Example: a human being needs food but wants a burger, French fries and soft drink.

A commodity or service wanted at a specific price and time constitutes demand. Given with they wants and resources. People demand product with benefits that correlate the most with value and satisfaction.

Value is a central marketing concept. It reflects the sum of perceived tangible and intangible benefits and costs to customers. It is the relation between cost and benefit. It is the relation between what we give and what we get. Value increases with quality and services and decreases with price.

- Benefit can be functional benefit and emotional benefit
- Cost can be time cost, energy cost and psychological cost
- Value = benefit (divided by) cost

Satisfaction reflects a person's judgments of a product's perceived performance in relationship to expectations. If performance falls short of expectations, person is dissatisfied and disappointed. If it matches expectations, the customer is satisfied. If it exceeds them, the customer is delighted.

Segmenting is the dividing the market by grouping the customers with similar tastes and preferences into one group is called segmentation.

Section questions: What are the main differences between "needs" and "wants"? Why are knowing these differences useful? What does "value" mean in terms of your product/service?

11.3 MARKETING RESEARCH

(Kotler and Keller p. 55,74, 98–99 and Zimmerer and Scarborough p. 264–265)

The vehicle for gathering the information that serves as the foundation for the marketing plan is the research. Marketing research involves systematically collecting, analysing and interpreting data pertaining to a company's market, customers and competitors. The objectives of market research are to learn how to improve the level of satisfaction for existing customers and to find ways to attract new customers.

Determining customer needs and wants through research (Kotler and Keller p. 74) Shifting patterns in age, income, education, race and other population characteristics which are the subject of demographics will have a major impact on companies, their customers. Businesses that ignore demographic trends and fail to adjust their strategies accordingly run the risk of becoming competitively obsolete.

The value of market research (Zimmerer and Scarborough p. 270–271)

- By performing some basic market research, small business owners can detect key demographic and market trends
- Every business can benefit from a better understanding of its market, customers, and competitors
- The objective of market research is to learn how to improve the level of satisfaction for existing customers and to find ways to attract new customers
- Meaningful market research for a small business can be informal; it does not have to be highly sophisticated or expensive to be valuable
- Many entrepreneurs are discovering the power, the speed, the convenience, and low cost of conducting market research over the internet

— The goal of market research is to reduce the risks associated with making business decision

Steps of Marketing Research (Kotler and Keller p. 100–111) Successful market research consists of four steps: define the objective, collect the data, analyze and interpret the data, and draw conclusions.

Define the objectives by determining the problems you face within your industry. This should be defined clearly and concisely—do not go too wide or broad with the problems and objectives you list.

Develop the research plan by deciding where you will gather your information and how you will go about it. You can approach research in different ways including looking through data collected by others (such as government demographic data, articles printed by newspapers, etc.), by conducting interviews with key people of by your own observations.

Collect the data through individualised (or one-to-one) information gathering or gather the necessary information with groups. You will need to develop a system that helps you gather information and a structured and productive way. As mentioned above, you can gather secondary data, primary data or both. Secondary data are data that were collected for another purpose and already exist somewhere. Primary data are data freshly gathered for a specific purpose or for a specific research project.

Zimmerer and Scarborough's advice on market research questions (p. 271)

- Get specific asking and answering questions such as the following:
  - Who are my customers and potential customers?
  - What are they looking for?
  - What kind of people are they?
  - How old are they?
  - Are they male or female?
  - What kind of jobs do they hold?
  - What is their household income?
  - How often do they buy these products or services?
  - What models, styles, colors, or flavors do they prefer?
  - Why do—or don't—they buy from my business?
  - How well do my products or services fit their needs and wants?
  - What hours do they prefer to shop?
  - How do they perceive by business?
  - Which advertising media are likely to reach them?
  - How do customers perceive my business versus competitors?

Analysing and interpreting the data is the process is to extract findings by tabulating the data and developing summary measures. During the analysis, you have the opportunity not only see some results from the data but you also can think about how you would approach this process differently in the future.

Drawing conclusions and acting on them is the last step. Here you can decide what to do with everything you have learned and apply the necessary elements to your marketing plan.

Section questions: How will you go about doing market research? Will you talk to people? Use previously collected data? Why kind of data do you need? Where do you find it?

11.4 MARKETING MIX (4PS)

(Zimmerer p. 301 and Kotler and Keller p. 25)

The marketing mix is a set of decision that needs to be considered prior to introducing a new product. McCarthy classified various marketing activities into a marketing mix of four broad kinds, which he called the four Ps of marketing: product, price, place and promotion.

These four elements interconnected, and, when properly coordinated with a solid marketing plan, increase the sales appeal of a product or service. Small business managers must integrate these elements to maximize the impact of their service on the consumer. All four P's must reinforce the image of the product or service the company presents to the potential customer.

Product

Product Hierarchy (Kotler and Keller p. 336) The product hierarchy stretches from basic needs to particular items that satisfy those needs. A product family is a group of related goods that are manufactured by the same company. We can identify six levels of the product hierarchy:

- Need family — the core need that underlies the existence of a product family
- Product family — all the product classes that can satisfy a core need with reasonable effectiveness
- Product class — a group of products within the product family recognised as having a certain functional coherence, also known as a product category
- Product line — a group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, or a single family brand, or individual brand that has been line extended
- Product type — a group of items within a product line that share one of several possible forms of the product
- Item (also called stock-keeping unit or product variant) — A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute

Product life cycle (Kotler and Keller p. 310, 493 and Scarborough p. 299–301) The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

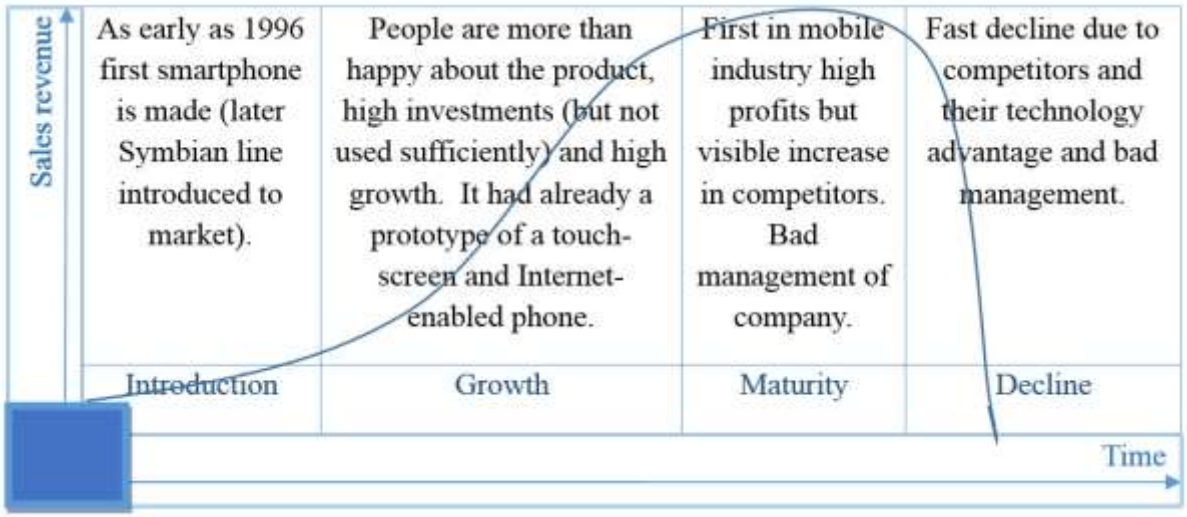


Figure 60 Example of a product life cycle of Nokia phone (Karlis123321 Wikimedia)

Introduction stage—This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

Marketing Strategies for introduction stage are:

- Product—one or few products, relatively undifferentiated
- Price—generally high, assuming a skim pricing strategy for a high profit margin as the early adopters buy the product and the firm seeks to recoup development costs quickly. In some cases a penetration pricing strategy is used and introductory prices are set low to gain market share rapidly

Figure 61 Samsung phones featured in a catalogue

- Distribution—distribution is selective and scattered as the firm commences implementation of the distribution plan
- Promotion—promotion is aimed at building brand awareness. Samples or trial incentives may be directed toward early adopters. The introductory promotion also is intended to convince potential resellers to carry the product

Growth stage is typically characterised by a strong growth in sales and profits, and because the company can start to benefit from economies of scale (a proportionate saving in costs gained by an increased level of production) in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage. The marketing strategy may be modified as follows:

- Product—new product features and packaging options, improvement of product quality
- Price—maintained at a high level if demand is high, or reduced to capture additional customers
- Distribution—distribution becomes more intensive. Trade discounts are minimal if resellers show a strong interest in the product
- Promotion—increased advertising to build brand preference

Maturity stage the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses and they need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to

the production process which might give them a competitive advantage. Marketing mix decisions may include:

- Product—modifications are made and features are added in order to differentiate the product from competing products that may have been introduced
- Price—possible price reductions in response to competition while avoiding a price war
- Distribution—new distribution channels and incentives to resellers in order to avoid losing shelf space
- Promotion—emphasis on differentiation and building of brand loyalty. Incentives to get competitors' customers to switch

Decline stage is eventually when the market for a product will start to shrink. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

During the decline phase, the firm generally has three options:

- Maintain the product in hopes that competitors will exit. Reduce costs and find new uses
- Harvest it, reducing marketing support
- Discontinue the product when no more profit can be made or there is a successor product

The marketing strategy may be modified as follows:

- Product—the number of products in the product line may be reduced. Rejuvenate surviving products to make them look new again
- Price—prices may be lowered to liquidate inventory of discontinued products
- Prices may be maintained for continued products serving a niche market
- Distribution—distribution becomes more selective. Channels that no longer are profitable are phased out
- Promotion—expenditures are lower and aimed at reinforcing the brand image for continued products

New product development (NPD) (Kotler and Keller p. 567) New product development (NPD) will take in to account the consumer's preference for benefits over features by considering research into their needs. NPD aims to satisfy and anticipate needs. NPD delivers products which offer benefits at the core, actual and augmented levels.

NPD might offer a replacement product for a current line, it could add products to the current line, it could discover new product lines and sometimes it delivers products which the world might not have seen before.

New products are launched for all sorts of reasons such as business environment, legislation (i.e. changes in the law can mean that companies have to design and develop new products). An example of this was when we moved from videotape recorders to digital and DVD recorders. So products need to be modified for changing target markets.

Product mix (Kotler and Keller p. 336) A product mix (or product assortment) is the set of all products offered by a company. This may be wide or narrow range depending on what is required by the customer and how many market segments the company wishes to target.

Many car companies will offer a wide range of products in order to target different market segments. For example:

- Mercedes C180: the target market is the "would be" Mercedes owner who wants a Mercedes but is on a lower income and can only just afford the cheapest model.
- Mercedes 500SL: the target market is the higher income type customer who is looking for style and can afford to pay.

Although most customer would request high quality products if asked, the actual quality of the product may be high or low depending on the income level in the target market, the nature of competition and how much the customer is prepared to pay.

High quality products, such as a Rolex watch, will be targeted at the high-income customer who can afford to pay for superior product quality.

Branding is a way of giving identification to a company and its goods and services. Branding is actually a very general term covering brand names, designs and trademarks, which may be used to distinguish one product from another.

The benefits of having a strong product brand are as follows:

- It allows the organisation to charge a premium price for the product
- It promotes customer loyalty and is associated with a particular image
- Branding leads to ready acceptance by wholesalers and retailers
- Other products can be included in the brand range which "piggy back" on the articles already known to the customer on the back of existing brands
- The organisation may also introduce new flavors, shapes and sizes for its branded goods. For example: Mars bars is a brand extension of the candy parent company

Packaging is used at a basic level to safeguard the product, it can also:

- This is an important factor in the presentation. The design color of contents of the packaging can attract potential buyers
- Reinforces the brand image and point of sale attention of the buyer
- Create a competitive advantage by having packaging in a unique shape
- Packaging should be as small in space as possible to save on warehouse and retail space, as well as distribution cost
- The packaging can also promote an environmentally friendly image by being reusable or by being made of recycled paper

After sales service includes guarantees, warranties and after sales service.

Price (the cost to the customer) the amount the consumer must exchange to receive the offering.

Premium pricing (Kotler and Keller p. 388) Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists, and the marketer is safe in the knowledge that she/he can charge a relatively higher price. Such high prices are charged for luxuries such as first-class air travel.

Penetration pricing (Kotler and Keller p. 389) The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep up. Taking Sky TV for example, or any cable or

satellite company, when there is a premium movie or sporting event prices are at their highest—so they move from a penetration approach to more of a skimming/premium pricing approach.

Economy pricing This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majorities are economy seats, with the highest price being paid for the last few seats on flight (which would be a premium pricing strategy).

Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

We can take manufacturing of digital watches sued a skimming approach in the 1970s as an example. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. New products were developed and the market for watches gained a reputation for innovation.

Psychological pricing is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. It is strange how consumes use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach when buying products in an unfamiliar setting, an example being when buying ice cream. What would you like, an ice cream at 750 Kyats, 1025 Kyats or 2000 Kyats? The choice is yours.

Maybe you're entering an entirely new market. Let's say that you're buying a mobile phone for the first time and know nothing about the telecommunication system. Would you automatically by the cheapest? Would you buy the most expensive? Or, would you go for a mobile phone somewhere in the middle? Price therefore may be an indication of quality or benefits in unfamiliar markets.

Product line pricing (Kotler and Keller p. 342) Companies that have a range of products attribute a range of prices to them. For example, a basic car wash could be 6000 Kyats, a wash and wax 9000 kyats and the whole package for 12000 Kyats. Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally—over the range.

If you buy chocolate bars or potato chips you expect to pay X amount for a single packet, although if you buy a family pack which is 5 times bigger, you expect to pay less than 5 X the price. The cost of making and distributing large family packs of chocolate/chips could be far more expensive. It might benefit the manufacturer to sell them singly in terms of profit margin, although they price over the whole line. Profit is made on the range rather than single items.

Optional product pricing Companies will attempt to increase the amount customers spend once they start to buy. Optional "extras" increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

Captive product pricing (Kotler and Keller p. 343) Where products have complements, companies will charge a premium price since the consumer has no choice. For example a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor. Another example is where printer manufacturers will sell you an inkjet printer at a low price. In this instance the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again, the cartridges are not interchangeable and you have no

Figure 62 Non-interchangeable goods

choice.

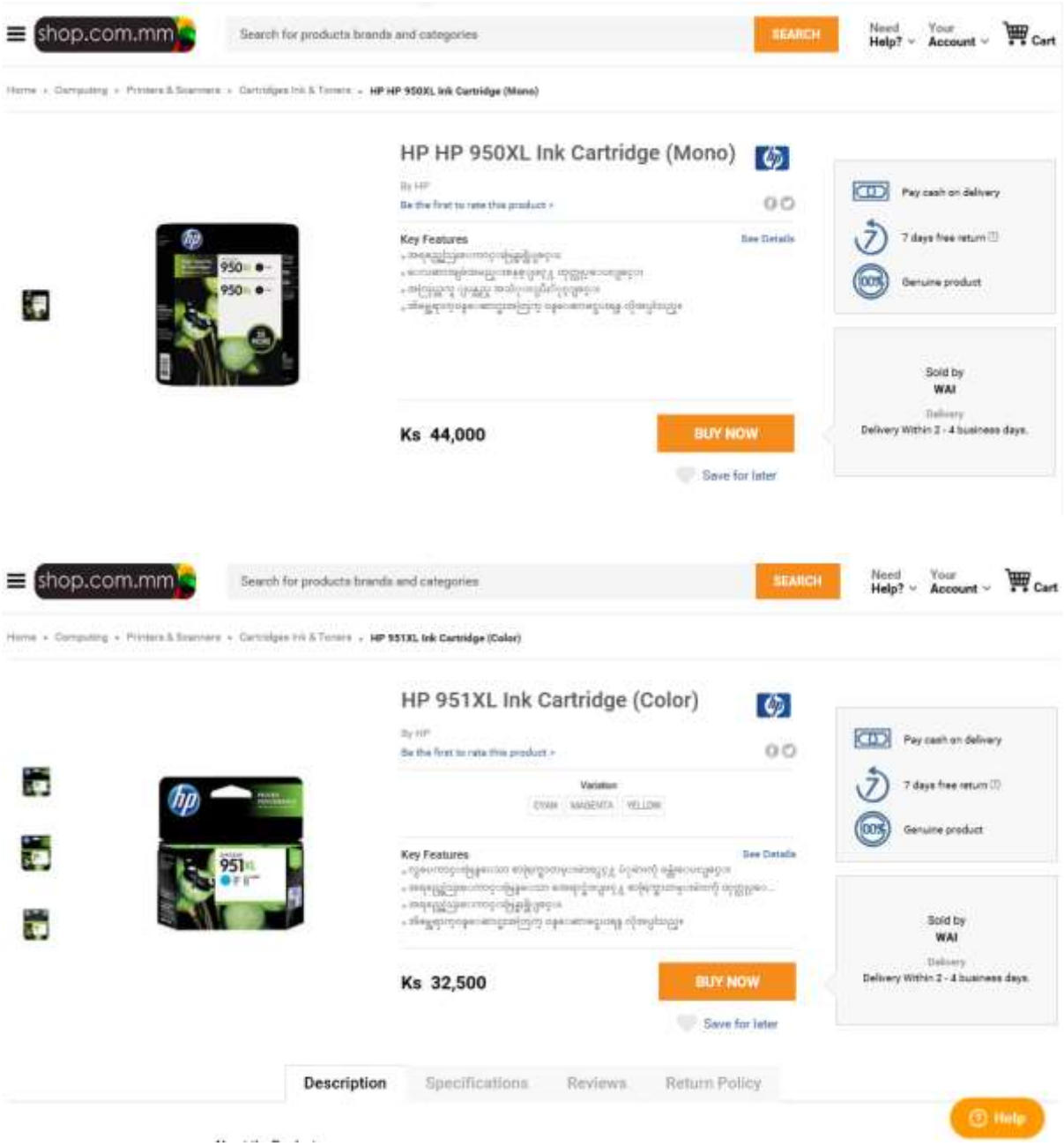


Figure 63 Set of replacement cartridges

Product bundle pricing (Kotler and Keller p. 344) Here sellers combine several products in the same package. This also serves to move old stock. Blu-ray and videogames are often sold using the bundle approach once they reach the end of their product life cycle. You might also see product bundle pricing with the sale of items at auction, where an attractive item may be included in a lot with a box of less interesting things so that you must bid for the entire lot. It's a good way of moving slow selling products, and in a way

is another form of promotional pricing.

Figure 64 Product bundle pricing

Promotional pricing (Kotler and Keller p. 404–405) Pricing to promote a product is a very common application. There are a number of promotional pricing options including the following:

Loss-leader pricing—supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the loss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price.

Special event pricing—sellers will establish special prices in certain seasons to draw in more customers. Every April, there are back-to-school sales. Special customer pricing—sellers will offer special prices exclusively to certain customers.

Cash rebates—auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time

period. Rebates can help clear inventories without cutting the stated list price.

Low-interest financing—instead of cutting its price, the company can offer customers low-interest financing. Automakers have used no-interest financing to try to attract more customers.

Longer payment terms—sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (the interest rate) of a loan and more about whether they can afford the monthly payment.

Warranties and service contracts—companies can promote sales by adding a free or low-cost warranty or service contract.

Psychological discounting—this strategy sets an artificially high price and then offers the product at substantial savings. For example: "Was $351, now $211."

Geographical pricing (Kotler and Keller p. 404) Geographical pricing sees variations in price in different parts of the world. For example, rarity value, or where shipping costs increase price. In some countries there is more tax on certain types of product which makes them more or less expensive, or legislation which limits how many products might be imported again raising price. Some countries tax inelastic goods such as alcohol or petrol in order to increase revenue, and it is noticeable when you do travel overseas that sometimes goods are much cheaper, or expensive of course.

Value pricing (Kotler and Keller p. 398–399) This approach is used where external factors such as recession or increased competition force companies to provide value products and services to retain sales for example value meals at McDonalds and other fast-food restaurants. Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product. In many ways it is similar to economy pricing. One must not make the mistake to think that there is added value in terms of thee product or service. Reducing price does not generally increase value.

Promotion: Marketing communications mix (Kotler and Keller p. 478) The marketing communications mix consists of eight major modes of communication:

Advertising — any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor via:

- print media (newspapers and magazines)
- broadcast media (radio and television)
- network media (telephone, cable, satellite, wireless)
- electronic media (audiotape, videotape, videodisk, CD-ROM, Web page)
- display media (billboards, signs, posters)

Sales promotion — a variety of short-term incentives to encourage trial or purchase of a product or service including

- consumer promotions (such as samples, coupons, and premiums)
- trade promotions (such as advertising and display allowances)
- business and sales force promotions (contests for sales reps)

Events and experiences — company-sponsored activities and programs designed to create daily or special brand-related interactions with consumers, including sports, arts, entertainment, and cause events as well as less formal activities.

Public relations and publicity — a variety of programs directed internally to employees of the company or externally to consumers, other firms, the government, and media to promote or protect a company's image or its individual product communications.

Direct marketing — use of mail, telephone, fax, e-mail, or Internet to communicate directly with or solicit response or dialogue from specific customers and prospects.

Interactive marketing — online activities and programmes designed to engage customers or prospects and directly or indirectly raise awareness, improve image or elicit sales of products and services.

Word-of-mouth marketing — people-to-people oral, written, or electronic communications that relate to the merits or experiences of purchasing or using products or services.

Personal selling — face-to-face interaction with one or more prospective purchasers for the purpose of making presentations, answering questions, and procuring orders.

Advertising

Advertising strategy Often it has to be decided what emphasis shall be given in the way a product is advertised. The early promotion of the general concept of a whole new type of product is often referred to as generic promotion, whereas the latter competing for share of an established market is differentiation.

An important factor here is that in the early stages of growth of a new kind of product, sales can only be developed by encouraging the innovations amongst the population to adopt it. Other advertising strategy considerations include the various ways in which a market can be expanded by:

- Increasing the amount used at one time
- Increasing the frequency of use
- Increasing the number of users
- Increasing product choice
- Increasing the number of user

The creative task The creative stage of producing advertising campaigns is concerned with (a) what message you want to convey and (b) how your message can be conveyed most effectively. Kotler and Keller (p. 307) suggest creating your strategy for advertising by trying to answer the following questions in six sentences.

- Primary purpose—what is the purpose of the ad?
- Primary benefit—what can you offer?
- Secondary benefit—what other key benefits can you bring?
- Target audience—who is the target of this add?
- Audience reaction—what response do you want from your target audience?
- Company personality—what image about your company do you want to convey in your ad?

The advertising that finally emerges must of course have the following attributes:

- Be able to command attention against all competing influences. People do not generally watch television and read newspapers primarily to see the advertisements (although they may buy certain specialist magazines at least partly for that purpose)
- Be able to sustain interest. Boring or dull advertising is unlikely to exert much influence
- Be memorable

Response hierarchy models (Kotler and Keller p. 480–481) It can be helpful to think about how potential customers will receive the messages you are sending through your advertisements. Response hierarchy models assume that buyers pass through cognitive, affective and behavioural stages. Below are some aspects of customer processes that can be useful to you.

- Awareness—if most of the target audience is unaware of the object, the communicator's task is to build awareness
- Knowledge—the target audience might have brand awareness but not know much more. If knowledge is weak, need to select brand knowledge as its communications objective
- Liking—given target members know the brand, how do they feel about it? Good public relations call for "good deeds followed by good words."
- Preference—the target audience might like the product but not prefer it to others. The communicator must then try to build consumer preference by comparing quality, value, performance, and other features to those of likely competitors
- Conviction—a target audience might prefer a particular product but not develop a conviction about buying it. The communicator's job is to build conviction and intent to apply.
- Purchase—finally, some members of the target audience might have conviction but not quite get around to making the purchase. The communicator must lead these consumers to take the final step, perhaps by offering the product at a low price, offering a premium, or letting them try it out

Deciding on advertising budgets (Kotler and Keller p. 505–506) Knowing what to spend on your advertising budget can be difficult. There are a number of factors that can affect this decision such as one traditionally being the following:

- Stage in the product life cycle—new products tend to need more advertising while older ones can have less exposure if your customer base is already familiar with them.
- Market share and consumer base—high market-share brands require less advertising expenditures as a percentage of sales go towards maintain it.
- Competition and clutter—in a market with many competitors, you will need to spend more money on advertising to get the attention of the customers. The word clutter is used here to describe how many companies will be spending on advertising to out shine the others, causing a bit of a mess.

- Advertising frequency—the number of times you want to get your message out there will dictate the costs of advertising.
- Product sustainability—the more crowded the field is for your product (such as sodas, candy, etc.) the more you will need to spend money to set yourself apart.

Sales promotion There is a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade. Below are a few examples that can be useful to entrepreneurs and small businesses.

Samples	Allowances	Street activities
Coupons		
	Free goods	Public Relations
Cash refund offers		
Prizes	Sales contests	Press kits
	Specialty advertising	
Patronage rewards		Seminars
Promotion	Events/ Experiences	
		Annual reports
Catalogs	Sports	
		Charity
Mailings	Entertainment	Personal Selling
	Festivals	
Telemarketing		Sales presentations
	Factory tours	Fairs and trade shows
Online shopping		
		Direct Marketing

Evaluation Whatever method you end up using, consider evaluating how your advertising method was received and what type of returns you saw. This will be particularly important to help determine the advertising budget in the future.

Direct marketing—manufacturers selling to customers (Kotler and Keller p. 185,416–417) There are several ways that manufacturers can sell to their customers.

Manufacturer—consumer channel

- Using local, regional or national advertising to offer product for sale. The consumer orders the product directly from the manufacturer and no personal contact between buyer and seller is made

- The producer employs sales reps to make contact with buyer in an attempt to sell products
- Manufacturers can own their own stores or retail outlets
- Some manufactures of consumer products may use catalogs to sell to individual consumers or to group. In these cases, the manufacture is assuming the role of catalog retailer or catalog wholesaler

Manufacture-retailer-consumer channel

- The retailer is one of the most important middlemen in the distribution channel and sells most of the products and services used for personal consumption
- Some manufactures of consumer products choose to sell their products through large-scale retailers such as chain and department stores
- Manufacturers or producers may prefer to place their products in exclusive retail outlets because they may be unable to place orders large enough to justify sales calls, they may avoid retailers are not able to do a satisfactory marketing job, etc.

Manufacturer—wholesaler-retailer-consumer channel

- As middlemen for consumer products passing through channels of distribution, wholesalers buy products from manufacturers and sell them to retailers
- This channel often is considered the most common channel for consumer products However, there are various types of wholesaler, and the activities they perform vary
- Reasons usually cited for the inclusion of wholesalers include manufacturer preferring to devote attention to production rather than selling, geographic concentration of target customer may be so widespread that using multiple wholesalers is best, etc.

Manufacturer-facilitator-wholesaler-retailer-consumer

- A third middleman sometimes is included in distribution channels for consumer products and services
- This middleman is a facilitator because he neither takes the title or possession of the products
- A manufacturer's agent is a facilitator who operates under contract with the manufacturer to sell products in an exclusive territory. A selling agent is a similar type of middleman

- Agents do not take title to products but are responsible for selling to wholesalers. These sale facilitators receive compensation from the manufacturer in the form of commissions or fees

Section questions: What type of research will you do before you decide on your marketing plan? What type of advertising will you do? What methods will you use (print, online, in-person promotion, etc.)? Why?

11.5 GUERRILLA MARKETING PLAN

(Scarborough p. 270–298)

There are different avenues for your marketing plan. A guerrilla marketing plan should accomplish four main things. (1) It should pinpoint the target market of the small business; (2) it should determine customer needs, desires and characteristics through market research; (3) it should analyse the company's competitive advantage and should build a financially sound marketing plan; and (4) it should help you create a marketing mix that meets your customers' needs and wants.

Defining your target market is very important for a small business. The more research and time you have taken to know who your customer is and what they need/want, the better. Characteristics such as their age, income level, education background and buying patterns are some examples of what you should look for.

Determining your customer needs is intertwined with understanding demographic data but also the social and cultural trends of the moment. In addition to the statistics on your target group, make sure to read current magazines, listen to popular music, watch television and follow social media sites. Even if your target group is not the younger generations, it is still important to know what is happening at this moment. There are trends for every age group that shift over time.

Small businesses do not have the funds that larger companies have to pour into their marketing plan. It is therefore important that you think through your plans carefully. Create a competitive advantage for your company by giving your customer what no one else will. This can be done through customer relationship management (CRM) where you

develop, maintain and nurture a long-standing relationship with your customers. Small businesses often do this more successfully than larger companies if they invest time in it.

To build an affordable and effective marketing strategy, entrepreneurs should bare the following things in mind:

- Find a niche and fill it
- Generate publicity
- Be entertaining
- Connect with your customers
- Build a consistent branding strategy
- Engage in social networking
- Use online options (videos, blogs, social media)
- Highlight your uniqueness
- Focus on your customers' needs
- Retain your existing customers
- Emphasise quality of your product/service
- Think about convenience for your customer
- Be innovative and show it
- Be fast but effective

This list gives you an idea of how to build a guerrilla marketing plan. Small businesses might not have the funds or the dedicated staff to put into action traditional marketing plans, but this is not necessarily a bad thing. By being able to provide customer with fast, high quality and innovative products/services, small businesses can be successful.

Section questions: What are some of the advantages that small businesses have over larger ones? How does this fit with a marketing plan? How will you indicated to potential customers your uniqueness and innovative ideas?

11.6 SERVICE MARKETING (3PS)

A service is the action of doing something for someone or something. It is largely intangible (i.e. not material). You cannot touch it. You cannot see it. You cannot taste it. You cannot hear it. You cannot feel it. So a service context creates its own series of challenges for the marketing manager since he or she must communicate the benefits of a service by drawing parallels with imagery and ideas that are more tangible.

There are a series of fundamental characteristics such as intangibility, inseparability, heterogeneity and perish ability which are unique to a service. The traditional marketing mix which includes product, place, price and promotion could be stretched to compensate for these factors. However, the services marketing mix is an adaptation of the traditional four Ps to address these characteristics and it sees the addition of another three Ps which are physical evidence, process and people.

Intangibility (Kotler and Keller p. 358) Unlike physical products, services cannot be seen tasted, felt, heard or smelled before they are bough. The person getting a facelift cannot see the results before the purchase, and the patient in the psychiatrist's office cannot know the exact outcome.

To reduce uncertainty, buyers will look for evidence of quality. They will draw inferences about quality from the place, people, equipment, communication material, symbols, and price that they see. Therefore, the service provider's task is to "manage the evidence" to "tangibilize the intangible" whereas product marketers are challenged to add abstract ideas, service marketers are challenged to add physical evidence and imagery to abstract offers. Service companies can try to demonstrate their service quality through physical evidence and presentation.

Inseparability (Kotler and Keller p. 359) Services are typically produced and consumed simultaneously. This is not true of physical goods, which are manufactured, put into inventory, distributed through multiple resellers, and consumed later. If a person renders the service, then the provider is part of the service.

Because the client is also present as the service is produced, provider–client interaction is a special feature of services marketing. For entertainment and professional services, buyers are very interested in the specific provider.

Variability (heterogeneity) (Kotler and Keller p. 359) Because they depend on who them and when and where they are provided, services are highly variable. Some doctors have an excellent bedside manner; others are less patient with their patients.

Perishability (Kotler and Keller p. 361) Service cannot be stored. Perish ability is not a problem when demand is steady. Demand fluctuates, service firms have problems. For example, public transportation companies have to own much more equipment because of rush-hour demand than if demand were even throughout the day. Some doctors charge patients for missed appointments because the service value exists only at that point.

Additional of another three Ps for service marketing (Kotler and Keller p. 360–362)

Physical evidence is "the environment in which the service is delivered, and the firm and customer interact and any tangible components that facilitate performance or communication of the service".

There are examples of physical evidence, including some of the following building, equipment, signs and logos, annual accounts and business reports, brochures, your website and even your business cards.

Process is the procedures, mechanisms and flow of activities by which the service is delivered through the service delivery and operating systems.

There are a number of perceptions of the concept of process within the business and marketing literature. Some see process as a means to achieve an outcome, For example, to achieve a 30% market share, a company implements a marketing planning process.

People are human actors who play a part in service delivery and thus influence the buyers' perceptions, namely the firm's personnel, the customer and other customer in the service environment.

People are the most important element of any service or experience. Service tends to be produced and consumed at the same moment, and aspects of the customer experience are altered to meet the individual needs of the person consuming it.

People are the fifth **"P" of marketing** Business may be in a good place, have good products at prices that customers are willing to pay, and your promotion strategy may be quite appealing. A lot of people visit your business, but your sales may still be low? Why might this be? Maybe you do not have the right people selling your products!

How to identify the key people that make your business different In each business there are some key people who create the competitive edge for your business. You should be able to identify the key personnel in your business and their specific duties.

Use the position you have set for your product as guideline. For example:

Paw Oo's shop positions itself as always selling new prestigious brands of mobile phones. Apart from selling the right product, Paw Oo needs smart sales people who can quickly learn the new functions and explain them to the customers.	Lai Lai positions Sawadee Restaurant as the authentic Thai food restaurant, so it is important that the executive chef is a proficient Thai food chef. If the chef is a Thai national, it is even easier for Lai Lai to promote the Position of her restaurant. In addition to the chef, the waiters and waitresses add to the image by wearing traditional Thai clothing and greeting the newly arriving guests in a traditional Thai manner, even though they are not Thai.

In general, you should look for:

- People with special technical skills that differentiate your product from others
- People with good customers service skills. Even if your good is average but your service is good, customers often want to come back
- People with good customers service skills who re able to understand and be sensitive to their customers' needs and they know to properly introduce a product that is appropriate for those customers

Improving your skills as a sales person You have done many things to attract customers to come to your business. But your product is not yet sold. How well you will sell it depends on you. Your skills as a salesperson can make the difference success and failure.

How to be a successful salesperson To improve your skill as a salesperson so that you can increase your sales you need to:

- Know your customers and their needs. First find out what the customer really needs by listening and asking questions
- Know how to treat your customers by being polite, making she/he feel welcome, by listening carefully, by being honest and trustworthy, by not disagreeing with her/him if they decide they do not want a product and by thanking the customer for coming to your business.
- Know your products and how to sell business and be ready for customers who may ask many questions

Even if you know your product very well, you may not be able to sell much of it. The reason might be that you do not know to show and explain your product to your customers.

Process is the sixth "P" of marketing. It refers to the procedures or processes that are developed to ensure that the customer has a positive and memorable experience when purchasing and/or using your product.

Why Process is important? You have put a lot of effort into getting the customers to your business and you may have friendly staff welcoming them, but you may still have problems similar to the ones at restaurant. Customers may use your product once and never return. Using the example of the Good Day Restaurant. There may be several reasons that a customer is served later than someone who came in afterwards:

- The waiter did not take the order from the earlier arrival until after she/he took an order from the other table
- The food ordered by the earlier arrival took longer to prepare, but the waiter neglected to tell the customer that his order would take a while

The Good Day Restaurant manager should train the wait staff to take orders from customers as soon as they arrive. If an order takes longer than usual to prepare, the staff should be trained to communicate this with the customers.

You should take a look at your process and see how to improve it to better satisfy your customers.

How to improve your processes There are several ways to look at a process. In this manual we look at process from a marketing point of view which is to care about the

customer experience during each step of the delivery process. Our aim is to create an enjoyable and memorable experience for the customers.

Let's look at the example of the Good Day Restaurant process:

The owner of the restaurant takes a look at the process. She tries to put herself in the shoes of her customers to answer the following questions:

- Which is the most important step in the enjoyment of my dinner experience?
- Which step annoys me and should be improved?
- Which step is difficult for me to take and requires some help from the staff?

By observing her customers and talking to them, the concluded:

- The customers enjoy step seven the most because the food and drink are delicious
- The customers hate step two: waiting to be seated and step six: waiting to be served
- The customers say that they need help with steps four and five as it is difficult to choose the food and drinks from the menus

Based on this information, the owner decides to improve steps two, four, five and six. She does the following:

- To improve step six, she checks the internal process, makes sure there is good coordination between the wait staff and kitchen staff, and estimates the time required to prepare and serve each dish. She tells the wait staff to let the customers know the estimated wait time for certain dishes
- To improve steps two, four and five the owner moves one part of her kitchen to the front so that her customers can see the food being prepared. She then assigns one person to stand in front to take orders from the customers who are waiting to be seated, in case they wish to order immediately, or they see something being prepared that they like. Customers enjoy watching the preparation of the meals, so they do not feel annoyed while waiting.

Physical evidence is the seventh "P" of marketing The physical appearance of a person gives you either a negative or positive impression and determines whether you feel that you should trust that person or not. So does the appearance of a business. The appearance of your business is called physical evidence.

Physical evidence is the tangible appearance of your product and company. In any

interaction between your business and your customers, physical evidence is what those customers can see, smell, touch, hear and taste.

How to create your physical evidence If you have a clear position, you will know what physical evidence to create for your customers. Overall business sends a clean and dynamic image to appeal to its clients. There are many opportunities to create the physical evidence that you want to communicate:

- The appearance of your offices
- The appearance of your shops
- Your product packaging
- Your website
- On documents, such as letters, contracts, leaflet, business cards, signs, etc.
- On gifts or promotional items
- On your delivery vehicles
- Through the appearance of your staff uniforms or dress codes
- With any of your events, trade show booths, etc.

Section questions: Do you think that the marketing plan, including the advertising, should be different for a product versus a service? Why or why not? If you intend of starting your business based on a service you will provide, will you follow the same suggestions for putting together a guerrilla marketing plan? Why or why not?

11. 7 CUSTOMER SERVICE STRATEGIES

(source unknown)

1. Recruit and train the right people (https://www.callcentrehelper.com/top-customer-service-strategies-no-1-recruit-and-train-the-right-people-26282.htm)

People with the right attitude are essential to building a successful customer service approach—"hire for attitude, train for skills" should be the maxim. Once in place, a planned training program in both job skills and people skills must be maintained. This is not an area for cost cutting if the market gets tough. Consider formal customer service qualifications for all staff.

2. Happy Staff = Happy Customers (https://www.callcentrehelper.com/happy-staff-happy-customers-26284.htm)
Staff retention is crucial to your organisation improving customer service excellence. Research shows clearly that staff stay when they are happy and respect the organisation for which they work. Efforts should therefore be directed at recognition and development program to determine potential, and a well-though–out career plan structure.

3. Recognise the importance of customer loyalty
(https://www.callcentrehelper.com/the-importance-of-customer-loyalty-29662.htm)
It is essential to keep the good customers you already have and gain their loyalty. Loyal customers are active advocates of your organisation, and they also tend to be more profitable, more interested in helping you improve your products and services, and more forgiving of your occasional mistakes.

4. Lead from the top (https://www.callcentrehelper.com/top-customer-service-strategies-no-4-lead-from-the-top-29972.htm)
Getting customer service right in an organisation, and continually improving it, is a long-term commitment that must be made by those at the top. They need to recognise its importance, believe in the strategy, be active in leading by example, and take actions that support those charged with carrying it out.

5. Listen to what your customers and staff are saying to you
(https://www.callcentrehelper.com/top-customer-service-strategies-no-5-listen-to-you-customer-and-staff-30861.htm)
It's probably not what you think. Regularly listen to and analyse customer phone calls. Have feedback focus groups and suggestion schemes. Consider speech analytics. Use your own systems to test what customers are facing.

6. Welcome complaints
Complaints are free market research and should be welcomed. Ensure that you are hearing them and resolve them when possible. Prevent them from being repeated by learning from previous ones.

7. Look at your processes from a customer and staff point of view

Many organisations take an internal point of view on processes, trying to "improve" them without considering the customer or staff that actually have to use them. Is the step in the process really benefiting everyone, or does it just make lifer easier for one area at the expense of others?

8. Utilize tools with caution—contact centers, CRM and other tools

If any of these things are being done/ introduced primarily to reduce costs, then it is doubtful whether real improvements in service levels will be gained. If the tools are an integral part of your strategy for improving customer service, one or more of them could be very useful.

9. Measure your performance—including Net Promoter/Customer Effort

Make sure that you measure the right things, not the easiest things—will it be useful? Will it lead to actions being taken? Is it really relevant? The true question is—are you doing it to give yourself a warm feeling inside, or to see where you have to make changes? Benchmarking can be a key part of your measurement program. Learning from other sectors can often be much more beneficial than same-sector comparisons.

10. Build a reputation, communicate and tell the world

The full involvement and commitment of both staff and customers in a customer service excellence program can depend greatly on your skills at communicating with them. This requires a coordinated strategy of communications utilizing all available tools. A reputation for great service can be easily lost. Being great at customer service is something to tell the world about, as long as you really are great.

11. Cultivating customer relationships

Maximising customer value means cultivating long-term customer relationships. Companies are now moving away from wasteful mass marketing to more precision marketing designed to build strong customer relationships. Today's economy is supported by information businesses. Information has the advantages of being easy to differentiate, customize, personalise and dispatch over networks at incredible speed.

Customer empowerment has become a way of life for many companies that have had to

adjust to a shift in the power with their customer relationships." Marketing insight: Company Response to Customer Empowerment" describes some of the changes companies have made in their marketing practices as a result.

Section questions: How will you ensure customer satisfaction? Will this be a top priority for you? How will you measure customer feelings and opinions on your product and service?

11.8 MARKETING PLAN

(Kotler and Keller p. 54–55)

Contents of the Marketing plan

Executive summary and table of contents –the marketing plan should open with a brief summary of the main goals and recommendations. The executive summary permits senior management to grasp the plans major thrust. A table of contents that outlines the rest of the plan and all the supporting rationale and operational detail should follow the executive summary.

Situation analysis—this section presents relevant background data on sales, costs, the market, competitors and the various forces in the macro environment. How the market is define, how big it is and how fast is it growing? What are the relevant trends affecting the market? What is the product offering and what are the critical issues facing the company? Pertinent historical information can be included to provide context. All this information is used to carry out on a SWOT (strengths, weaknesses, opportunities, and threats) analysis.

Marketing strategy—here the product manager defines the mission, and marketing and financial objectives. The manager also defines those groups and needs which the market offerings are intended to satisfy. The manager then establishes the product line's competitive positioning, which will inform the "game plan" to accomplish the plan's objectives. All this is done with inputs from other organisational areas, such as purchasing, manufacturing, sales, finance, and human resources, to ensure that the company can provide proper support for effective implementation. The marketing

strategy should be specific about the branding strategy and customer strategy that will be employed.

Financial projections—financial projections include a sales forecast, an expense forecast, and a break–even analysis. On the expense side, the projections show the expected costs of marketing, broken down into finer categories. The break–even analysis shows how many units must be sold monthly to offset the monthly fixed costs and average per–unit variable costs.

Implementation controls—the last section of the marketing plan outlines the controls for monitoring and adjusting implementation of the plan. Typically, the goals and budged are spelled out for each month or quarter so management can review each period's results and take corrective action as needed. A number of different internal and external measures must be taken to assess progress and suggest management would take to assess progress and suggest possible modifications. Some organisations include contingency plans outlining the steps management would take in response to specific environment all developments, such as price wars or strides.

Section questions: Will you write up a marketing plan for your business? Why or why not? Is it clear to you what a marketing plan consists of and how to write one?

CHAPTER 12

FINANCIAL MANAGEMENT

SYSTEMS AND PROCEDURES
INTERPRETING FINANCIAL STATEMENTS
RATIO ANALYSIS
COST CLASSIFICATION, BEHAVIOUR AND PURPOSE
PRICING STRATEGIES
INVESTMENT

12.1 SYSTEMS AND PROCEDURES

(ACCA p. 329)

Systems provide businesses with procedures and guidelines that reflect its policies. A system brings together independent but interrelated elements which allow for a business to function. The system is built around policies, which are guiding principles that help businesses establish a course of action. The system works by having a set of procedures—a series of acts and a set sequence of steps that are taken to accomplish something. Guidelines are the recommended approach for conducting a task. Together these elements help a business move forward.

Advantages of formal procedures Putting formal procedures into place has certain advantages, which include:

- All transactions will be recorded in the same way, and the required information will be recorded in the correct places
- The 'best' practice, the most efficient way of recording transactions, can be adopted by everyone
- Staff can refer to the written procedures if they are in doubt as to what to do
- New staff can be trained more quickly
- The auditors can follow transactions more easily if they are recorded in the same way
- Transactions which have not followed the procedure, which could be errors or frauds, may be identified more easily

Procedure manuals provide instructions on the daily operations of a business. They help with consistency and quality. Companies collate formal procedures within each system into a procedures manual. A good manual will contain sufficient detail to enable staff to understand the procedures they should carry out with minimal supervision and verbal instruction.

The manual normally contains a flowchart of each system. This is a diagram showing the stages of the system, the documents produced and the document flow. This provides an easy, visual overview of the system. The diagram is usually accompanied by detailed notes which put into words what is being represented, how the document

flow and what checks must be performed at each stage.

The procedures manual should be very specific as to who should perform each task (which position within the company), when and how frequently. This helps to ensure that staff fulfils their tasks on a timely basis and that controls are performed by the appropriate people.

Businesses have specific procedures for a number of daily activities. The below tables outline the typical procedures for purchases, sales and wages.

Purchase cycle (ACCA p. 331–332)

Requisition	— Staff decides what goods/services they wish to purchase and produce a purchase requisition — Supervisor authorizes and passes paperwork to purchasing/ordering department
Ordering	— Purchase department places order with suppliers — A quote is given to get the most competitive price — Supervisor may authorize order, especially if for a large amount
Goods received	— Goods should be inspected to ensure that they are in good condition and the quantity is correct — A record should be kept of all goods received
Invoice received	— Supplier bills company for goods/services — Before recording in the accounts, checks are made to ensure goods were received and that the price is correct (i.e. same as order)
Invoice recorded	— Recorded in company's accounting system, manual or computerized
Payment made	— Cash, money or a cheque is produced for the amount owing — This will be approved for payment by a senior manager who will first check that the details of the payment matches the invoices

Sales cycle (ACCA p. 333)

Order received	— Depending on the business, orders made by customers may be received by post, telephone, in person or electronically

	— A record should be made of incoming orders so that staff can check that they have all been processed
Order processed	— Staff should verify that the customer has a valid credit account or has already paid in cash — Staff should check that the goods are in stock — An order confirmation may be sent to the customer detailing when the goods will be dispatched
Goods dispatched	— The goods are sent to the customer — A document called a goods dispatch note is produced, which will be signed by the customer confirming that the goods were received in good condition
Invoicing	— An invoice is sent to the customer, detailing the amount charged for the goods
Recorded in the accounts	— The invoice is coded and entered into the accounts
Payment received	— Payment from customers is received by credit transfer or cash. Controls should be in place to ensure that staff are not in a position to misappropriate the payment. — The credit controller contacts those customers who are late in paying.

Wages cycle (ACCA p. 335–336)

Hours worked recorded	— Hourly-paid employees should record details of hours worked. This is done using clock cards on which a machine records starting and finishing times of work or recorded manually on paper or computer — Hours worked are usually authorized by a supervisor
Overtime recorded	— Salaried employees (who are not paid an hourly rate) may receive additional pay for overtime hours. If so, they will submit a timesheet with details of the hours worked to be authorized by the supervisor
Pay rates obtained	— Per hour or per month — If it is a manual system, the pay clerk will manually look up what is owed or if it is a computerized system the computer will do so — When pay rates are changed, this must be authorized by a senior manager
Pay calculated	— Hours x rate, or a set monthly pay — If calculated manually, two people should verify the calculations

Deductions calculated	— Depending on the country, this could be tax, social security, etc. This will be deducted from the gross pay
Net pay paid to employee	— Paid in cash or transferred from company's bank account to employee's bank account — If paid in cash, supervision is required to prevent theft, and employees should sign to acknowledge receipt of money

Transactions must be carefully recorded and verified at all times. Income and expenses are an essential component to a business and the more information you have about the money coming in and out, the better. To help with this, businesses generally have systems in place for the cash, receipts and payments.

Cash system (ACCA p. 357)
The cash system refers to the banking system, payments into and from the bank account and petty cash (actual money you have in the office).

Receipts system (ACCA p357)
The receipt system is a way of keeping track of the payments made by customers and by the company. Money is paid by customers which is recorded in the cash book and in the customer's personal account. The cashier then deposits the funds into the company's bank account. Controls should be in place for the handling of cash, money orders or cheques to ensure that nothing is misappropriated before it is deposited. Typical controls would include having two employees open the mail and listing all money received and a supervisor checking that all money received is reflected in the bank account.

Some customers may pay money directly into the company's bank account. The cashier should go through the bank statement carefully, enter details into the cash book, and ensure that details are passed to the sales ledger section to deduct the amount from the customer's balance.

Payments system (ACCA p. 357)
Companies pay their suppliers, usually monthly, by cash, money orders, direct deposit or cheque. A form is prepared for each payment, which details the reason why payment is required. Cash, money order or cheque is prepared and the money, requisition and

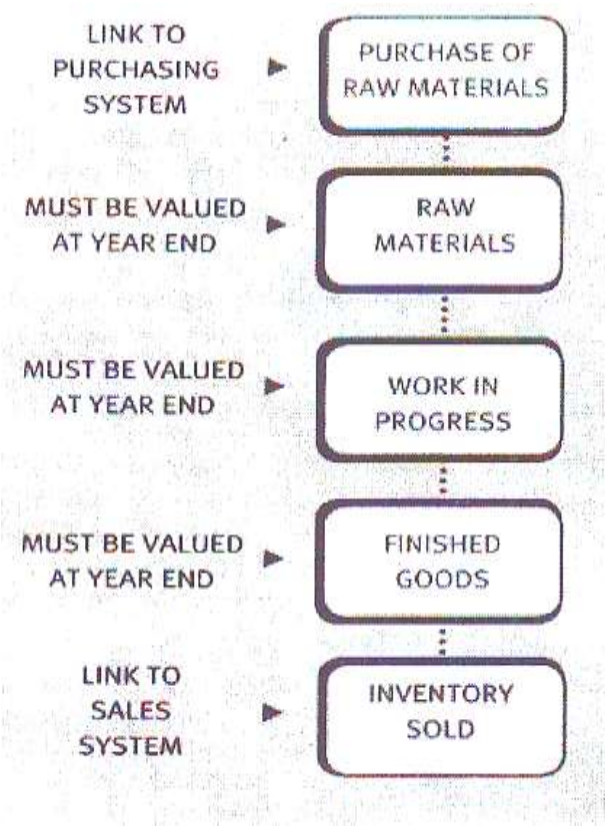
the invoices to be paid are submitted to a senior manager for approval.

Petty cash system (ACCA p. 357)

Companies need to keep a certain amount of cash on hand to pay for small expenses such as postage stamps, biscuits, taxi fares, etc. Whatever petty cash is kept on hand must be accounted for and documented. As staff claim against the petty cash system, they complete vouchers stating what the payment is for and attach a receipt to prove the amount (when possible). Staff handling money should be aware of how much petty cash is available, when to replenish and should keep all documentation of the cash up-to-date. The supervisor will inspect the receipts and vouchers.

Inventory system (ACCA p. 358–359)

The inventory system is a way to track the movement of raw materials needed to make the good and the final product sold by the company. There is an ideal inventory number for each item based on past, current and projections of future demand of the product(s). The system helps track each inventory item to help staff work efficiently and prevent a surplus or undersupply of goods. Below is a diagram that describes the inventory system.



Section questions: What benefits do you see to having procedures in place? How can you adapt the purchase, sales or wages cycles to your business idea (or current work)? Is this how you envision the cycles working in your own company? Why do you think it would be helpful to have a set system for managing money?

12.2 INTERPRETING FINANCIAL STATEMENTS

Most small businesses regularly produce summary financial information, almost all of it in the form of the following traditional financial statements:

Balance sheet (Zimmerer and Scarborough p. 354–385)
The balance sheet takes a "snapshot" of a business's financial position, providing owners with an estimate of its worth on a given date. Its two major sections show the assets the business owns, and the claims creditors and owners have against those assets. The balance sheet is usually prepared on the last day of the month.

The balance sheet is built on the fundamental accounting equation:

Asset = liabilities + owner's equity

Assets (Zimmerer and Scarborough p. 356)
Assets are what a company owns. This could be equipment, inventory, buildings, land and cash. There are different types of assets. Current assets consist of items to be converted into cash within one year or within the normal operating cycle of the company whichever is longer (such as accounts receivable and inventory). Fixed assets acquired for long-term use in the business while intangible assets include items such as copyrights, and patents that, although valuable, are not tangible.

Liabilities (Zimmmerer and Scarborough p. 357)
Liabilities are what a company owes. Examples include accounts payable, wages, taxes and debt. Current liabilities are those debts that must be paid within one year or within the normal operating cycle of the company. Long-term liabilities are those that are due after one year.

Owner's equity (Zimmer and Scarborough p. 357)
Owner's equity refers to the value of the owner's investment in the business. It is what brings balance to the balance sheet. It represents all of the owner's capital contributions to the business plus all accumulated (or retained) earnings not distributed to the owner(s).

Income statement (Zimmerer and Scarborough p. 386–387)
The income statement (profit or loss statement or "P/L") compares expenses against revenue over a certain period of time to show the firm's net profit (or loss). The income statement is a moving picture of a firm's profitability over time. The annual P/L statement reports the bottom line of the business over the fiscal/ calendar year. Several equations help determine the bottom line.

Net profit or loss (Zimmerer and Scarborough p. 387)
To calculate net profit or loss you subtract the total amount of profit from the total expenses. Total profits are sales revenues for the year including all income that flows into the business from sales of goods and services and income from other sources (rent, investments and interest). These must be included in the revenue section of the income statement. This is subtracted from the net loss, which includes expenses, taxes, overhead and investments.

Total profit—total loss = net profit (or net loss)

Sales revenue (Zimmerer and Scarborough p. 388)
To determine net sales revenue, owners subtract the value of returned items and refunds from gross revenue. Cost of goods sold represents the total cost, including shipping, of the merchandise sold during the accounting period. Manufacturers, wholesalers and retailers calculate cost of goods sold by adding purchases, inventory and subtracting ending inventory. Service-providing companies typically have no cost of goods sold because they do not carry inventory.

Net sales revenue minus cost of goods sold results in a company's gross profit. Dividing gross profit by net sales revenue produces the gross profit margin, a percentage that every entrepreneur should watch closely. If a company's gross profit margin slips too low, it is likely that it will operate at a loss (negative net income).

Many entrepreneurs whose companies are losing money mistakenly believe that the problem is inadequate sales volume; therefore, they focus on pumping up sales at any cost. In many cases, however, the losses their companies are incurring are the result of inadequate gross profit margin, and pumping sales only deepens their losses! Monitoring the gross profit margin over time and comparing it to those of other companies in the same industry are important steps to maintaining a company's long-term profitability.

Operating expenses include those costs that contribute directly to the manufacture and distribution of goods. General expenses are indirect costs incurred in operating the business. Other expenses are a catch-all category covering all other expenses that do not fit into the other two categories.

Total revenue minus total expenses gives the net income or loss for the accounting period. Comparing a company's current income statement to those of prior accounting periods often reveals valuable information about key trends and company's progress toward its financials goals.

Statement of cash flows (Zimmerer and Scarborough p. 387)
The statement of cash flows shows the changes in the firm's working capital from the beginning of the year by listing both the sources and the uses of those funds. To prepare the statement, the owner must assemble the balance sheets and the income statements summarizing the present year's operations.

The owner begins with the company's net income for the period (from the income statement), then adds the sources of the company's funds-borrowed, owner contributions, decreases in accounts receivable, increases in account payable, decreases in inventory, depreciation and any transactions.

Next the owner subtracts the uses of these funds—building and equipment purchases, dividends to owners, repayment of debt, increases in accounts receivable, decreases in accounts payable, increases in inventory and so on.

The difference between the total sources and the total uses is the increase or decrease in working capital. By investigating the changes in their companies' working capital

and the reasons for them, owners can create a more practical financial action plan for the future of the enterprise.

They can help entrepreneurs to map a firm's financial future and actively plan for profit. Mere preparation of these statements is not enough—owners and employees must understand and use the information contained in them to make the business more effective and efficient.

Section questions: What do you think are the benefits of using a balance sheet? Do you think it would be helpful to you? Why do you think a business would find it useful to have a statement of cash flow?

12.3 RATIO ANALYSIS

(Zimmerer and Scarborough p. 397–398)

Ratio analysis is a method of expressing the relationships between any two elements on financial statements. It provides an investment technique for performing financial analysis. When analysed properly, ratios serve as of an indicator of company's financial health.

There are 12 key ratios that will enable most business owners to monitor their companies' financial positions. They could be grouped into profitability ratios, liquidity ratios, operating ratios and gearing ratios.

Profitability ratios (Zimmerer and Scarborough p. 398)
Profitability ratios indicate how efficiently a small company is being managed. They provide the owner with information about a company's bottom line; in other words, they describe how successfully the firm is using its available resources to generate a profit.

The return on capital employed ratio measures the owners' rate of return on investment (ROI). It is one of the most important indicators of a firm's profitability or a management's efficiency.

Return on capital emp**loyed = Profit before interest and tax / Owner's equity**

This ratio compares profits earned during the accounting period with the amount the owners has invested in the business during that time.

Liquidity ratios (Zimmerer and Scarborough p. 398)
Liquidity Ratios reveals whether a small business will be able to meet its short term financial obligations as they come due. A small company with solid liquidity not only is able to pay its bills on time, but it also has enough cash to take advantage of attractive business opportunities as they arise. The current ratio measures a small firm's solvency (a company's ability to meet financial obligations) by indicating its ability to pay current liabilities (debts) from current assets. It is calculated in the following lowing manner:

Current ratio = current assets / current liabilities

The current ratio is the most commonly used measure of short-term solvency. A small business maintains a current ratio of at least 2:1 to maintain a comfortable cushion of working capital.

The quick ratio (acid test ratio) is a more conservative measure of a company's liquidity because it shows the extent to which its most liquid assets cover its current liabilities.

Quick ratio = (current assets – stock) / current liabilities

The quick ratio is a more specific measure of a firm's ability to meet its short-term obligations. A quick ratio of greater than 1:1 indicates a greater degree of financial security.

Operating ratios (Zimmerer and Scarborough p. 399)
Operating ratios help an entrepreneur evaluate a small company overall performance and indicate how effectively the business employs its resources. The more effectively

its resources are used, the less capital a small business will require.

A small firm's inventory turnover measures the number of times its average inventory is sold out, or turned over during the accounting period.

Inventory turnover = cost of goods sold / closing inventory

A small firm's credit collection period (days sales outstanding, DSO) is a measure of the average number of days it takes to collect accounts receivable.

Credit collection period (days) = account receivable balance / credit sales x 365 days

The lower a company's average collection period, the faster it is collecting its receivable and the less possibility for bad debt. The credit payable period is a measure of the average number of days a company takes to pay its accounts payable.

Credit payable period (days) = account payable balance / credit purchase x 365 Days

An excessively high average payables period ratio indicates the presence of a significant amount of past-due accounts payable. A small company's net sales to total assets ratio (asset turnover ratio) is a general measure of its ability to generate sales in relations in its assets. It describes how productively the firm employs its assets to produce sales revenue.

Total assets turnover ratio= net sales / net total assets

Gearing ratios (Zimmerer and Scarborough p. 400–401)
Debt is a powerful financial tool, but companies must handle it carefully, too much debt can be deadly. Managed carefully, debt can boost a company's performance and improve its productivity. A small company's debt ratio measures the percentage of total assets financed by its creditors compared to its owners.

Debt ratio = total liabilities / total assets

Total debt includes all current liabilities and any outstanding long-term notes and bonds. Total assets represent the sum of the firm's current assets, fixed assets and intangible assets. A high debt ratio means that creditors provide a large percentage of a company's total financing and, therefore, bear most of its financial risk. The lenders and creditors, high debt ratios mean a higher risk of default.

The times interest earned ratio is a measure of a small firm's ability to make the interest payments on its debt. This ratio measures the size of the cushion a company has in covering the interest cost of its debt load.

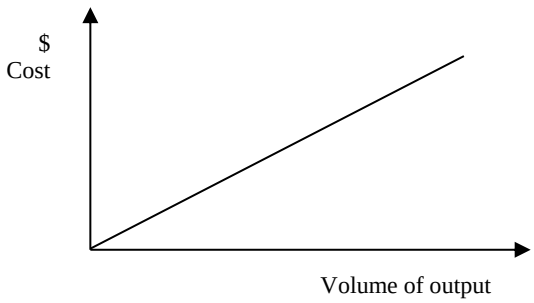
Interest earned ratio (times) = earnings before interest and tax/ total interest expense

The high ratio suggests that the company would have little difficulty meeting the interest payments on its loans.

Section questions: Which ratio do you think is the most useful? Why? Are there any ratios you did not understand or feel are not important?

12.4 COST CLASSIFICATION, BEHAVIOUR AND PURPOSE

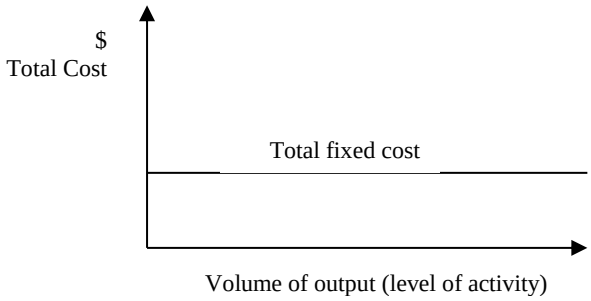
Variable costs (CIMA p. 35–36)
A variable cost is costs which tend to vary directly with the volume of output. The variable cost per unit is the same amount for each unit produced.



A constant variable cost per unit implies that the price per unit of say, material purchased is constant, and that the rate of material usage is also constant. When assessing the variable cost, the most important element is the cost of raw materials

(where there is no discount for bulk purchasing since bulk purchase discounts reduce the cost of purchases). Other costs to consider are direct labor costs, which, for very important reasons, are classed as a variable cost even though basic wages are usually fixed. There are also sales commission in relation to the volume or value of sales and bonus payments to employees.

Fixed costs (CIMA p. 34)
A fixed cost is a cost which tends to be unaffected by increases or decreases in the volume of output.



Fixed costs relate to a span of time. As the time span increases, so too will the fixed costs. It is important to understand that fixed costs always have a variable element, since an increase or decrease in production may also bring about an increase or decrease in fixed costs.

Examples: the salary of the managing director (per month or per annum), the rent of a single factory building (per month or per annum), straight-line depreciation of a single machine (per month or per annum), etc.

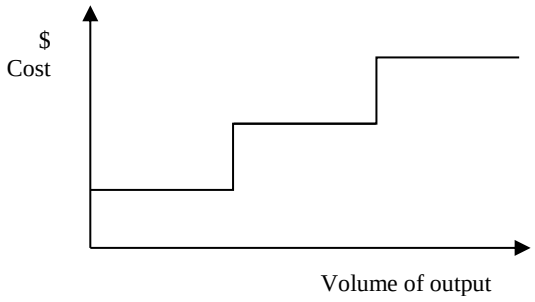
Semi-variable costs (CIMA p. 3)
A semi-variable cost, which contains both fixed and variable components and so, is partly affected by changes in the level of activity. Examples of these costs include the following:

- Electricity and gas bills
    - Fixed cost = standing charge
    - Variable cost = charge per unit of electricity used

- Salesman's salary
    - fixed cost = basic salary
    - Variable cost = commission on sales made

Step costs

A step cost is a fixed cost that increases to a new level in step with significant changes in activity.



Examples of step costs are plentiful. Rent is a step cost in situations where accommodation requirements increase as output levels get higher. Basic pay of employees in nowadays usually fixed, but as output rises, more employees are required. Royalties are considered a step cost.

Section questions: What are the differences between variable costs and fixed costs? Why is it important for you to calculate both of them?

12.5 PRICING STRATEGIES

The price to be charged for a product or service is often one of the most important decisions made by managers. There are a number of alternative pricing strategies.

Cost-plus pricing (CIMA p. 94)

Full cost-plus pricing is a method of determining the sales price by calculating the full cost of the product and adding a percentage mark-up profit. The 'full cost" may be a fully absorbed production cost only, or it may include some absorbed administration, selling and distribution overhead. A business might have an idea of the percentage profit margin it would like to earn, and so might decide on an average profit mark-up as

a general guideline for pricing decisions.

Businesses that carry out a large amount of contract work or jobbing work, for which individual job or contract prices must be quoted regularly, would find this a useful method to adopt. The percentage profit mark-up, however, does not have to be rigid and fixed, but can be varied to suit different circumstances.

Marginal cost-plus pricing (CIMA p. 97)

Marginal cost-plus pricing/ mark-up pricing involves adding a profit margin to the marginal cost of production/ sales. Whereas a full cost-plus approach to pricing draws attention to net profit and the net profit margin, a variable cost-plus approach to pricing draws attention to gross profit and the gross profit margin or contribution.

Target pricing (CIMA p. 97)

A target price is set in order to achieve a desired market share. Deduction of a desired profit margin produces the cost that has to be achieved. Design specifications and production methods are examined to establish ways in which the target cost can be met without reducing the value of the product to the customer. Such an approach is likely to offer greater competitive advantage than cost plus pricing, being far more strategically orientated as it takes account of the external environment.

Minimum pricing (ACCA p. 112)

Generally, the approach to pricing is to consider the minimum price charged which allows the business to break even. A minimum price would have to cover incremental costs of producing and selling the item. The opportunity costs of the resources consumed in making and selling the item would also need to be covered. A minimum price would leave the business no better or worse off than it did not sell the item.

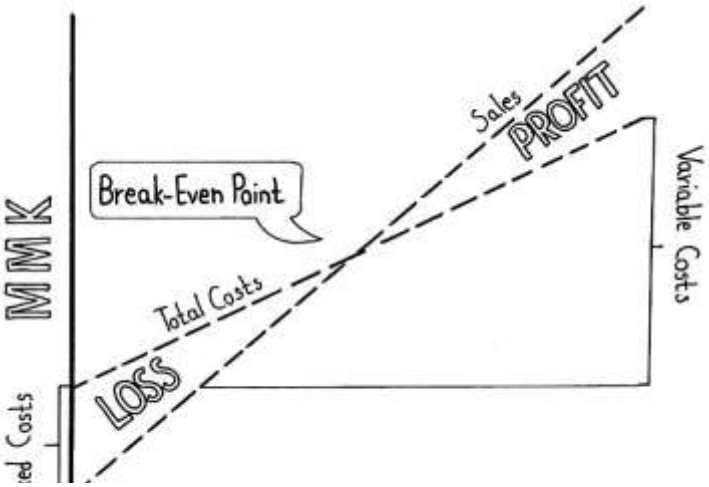


Figure 65 Break-even point

There are two essential points to understand about a minimum price. First it is

based on relevant costs, meaning the incremental costs plus the opportunity costs of making and selling the product or providing the service. Second, it is unlikely that a minimum price would actually be charged, because if it were it would not provide the business with any incremental profit.

Though the minimum price is not something businesses usually charge, it does help understand the price point (absolute minimum the price can be) and the incremental profit that would be obtained from any price that is actually charged in excess of the minimum. For example, if the minimum price is $200 and the actual price charged is $240, the incremental profit on the sale would be $40.

If there are no scarce resources, and a company has spare capacity, the minimum price of a product would be an amount, which equals the incremental cost of marking it. Any price in excess of this minimum would provide an incremental contribution towards profit.

If there are scarce resources and a company makes more than one product, minimum prices would include an allowance for the opportunity cost of using the scarce resources to make and sell the product (instead of using the resources on the next most profitable product). The benefit of using the scarce resource to achieve something outweighs the cost.

A business also has to consider its long-term costs in the decision because it has no other way of recovering them. It would have to add a proportion of estimated attributable costs to the price of each order. This could be calculated on a time basis (if the job is expected to take one month, $^{1}/_{12}$ of unavoidable costs would be included), but this might lead to inconsistencies if, say, the unavoidable costs were all borne by one customer in one month and shared between several customers in another month.

Section questions: How will you go about putting together a pricing strategy for your business? What factors will you consider when you are setting the price of your products/services?

12.6 INVESTMENT

(ACCA p. 128)

Investment can be divided into capital expenditure and revenue expenditure and can be made in non-current assets or working capital.

Investment is any expenditure with the expectation of future benefits. We can divide such expenditures into two categories: capital expenditure and revenue expenditure.

Capital expenditure is spending which results in the acquisition of non-current assets or an improvement in their earning capacity. It is not charged as an expense in the income statement—the expenditure appears as a non-current asset in the statement of financial position.

Revenue expenditure is charged to the income statement and is expenditure incurred for the purpose of the trade of the business and maintain the existing capacity of non-current assets.

The payback period (ACCA p. 135)

Payback is the time it takes to recover an investment or loan. It also indicates the time it takes for cash inflows to equal cash outflows. Payback is often used as a 'first screening method' meaning that when a capital investment project is being considered, the first question to ask is: 'How long will it take to pay its cost?' The organisation might have a target payback, and so it would reject a capital project unless the payback periods were less than a certain number of years.

However, projects should not be evaluated on the basis of payback alone. If a project gets through the payback test, it ought then to be evaluated with a more sophisticated investment appraisal technique.

The payback method continues to be popular and the following points can be made in its favor. It is simple to calculate and simple to understand. It uses cash flows rather than accounting profits and can be used as a screening device to eliminate obviously inappropriate projects prior to more detailed evolution. The payback approach tends to favor short-term projects and can therefore minimize both financial and business risk. Finally, it can be used when there is a capital rationing situation to identify those

projects, which generate additional cash for investment quickly.

There are also a number of serious drawbacks to the payback method. It ignores the timing of cash flows within the payback method and after the end of payback period, therefore ignoring the total project return. It does not take into account the time value of money (a concept incorporated into more sophisticated appraisal methods). This means that it does not take account of the fact that $1 today is worth more than $1 in one year's time. The choice of any cut-off payback period by an organisation is arbitrary. It may lead to excessive investment in short projects. It also takes account of the risk of the timing of cash flows but not the variability of those cash flows.

Return on capital employed (ACCA p. 136–138)

The return on capital employed method (ROCE) of appraising a capital project is to estimate the accounting rate of return that the project should yield. It's also called the accounting rate of return method or the return on investment (ROI) method. If it exceeds a target rate of return, the project will be undertaken. Here the measure is calculated in relation to investments.

$$\text{ROCE}=\frac{Estimatedaverage/totalprofits}{Estimatedaverage/initialinvestment}\text{x } 110\ \%$$

Unfortunately, there are several different of 'return on capital employed'. One of the most popular is as follows.

$$\text{ROCE}=\frac{Estimatedaverage\ annual\ accounting\ profits}{Estimatedaverageinvestment}\text{x } 110\ \%$$

$$\text{Average investment } =\frac{Capital\ cost+disposal\ value}{2}$$

The others include:

$$\text{ROCE} = \frac{Estimate\ total\ profits}{Estimated\ initial\ investment}\text{x } 110\ \%$$

$$\text{ROCE} = \frac{Estimate\ average\ profits}{Estimated\ initial\ investment}\text{ x } 110\ \%$$

There are arguments in favor of each of these definitions. The most important point is,

however, that the method selected should be used consistently.

There are advantages to the ROCE method. It is a quick and simple calculation. It involves the familiar concept of a percentage return and it looks at the entire project life.

There are also a number of other disadvantages. It is based on accounting profits and not cash flows. Accounting profits are subject to a number of different accounting treatments. It is a relative measure rather than an absolute measure and hence takes no account of the size of the investment. It does not take into account of the length of the project and like the payback method, it ignores the effect time has on the value of money.

Break-even analysis (Zimmerer and Scarborough p. 417–418)
A small common company's break-even point is the level of operation (sales dollars or production quality) at which it neither earns a profit nor incurs a loss. At this level of activity, sales revenue equals expenses. By analyzing costs and expenses, an entrepreneur can calculate the minimum level of activity required to keep the firm in operation.

There are fixed expenses, those that do not vary with changes in the volume of sales or production (e.g. rent, depreciation expense, interest payments). Variable expenses vary directly with changes in the volume of sales or production (e.g. raw material, sales commissions).

Some expenses cannot be neatly categorized as fixed or variable because they contain elements. These semi-variable expenses change, although not proportionately, with changes in the level of sales or production. Below are the steps an entrepreneur must take to compute the break-even point.

Step 1 Determine the expenses the business can expect to incur.

Step 2 Categorize the expenses estimated into fixed expenses and variable expenses. Separate semi variable expenses into their component parts.

Step 3 Calculate the ratio of variable expenses to net sales

Step 4 Compute the break-even point by inserting information into the following:

Break-even sales ($) = total fixed cost / contribution to sales ratio

Section questions: Can you explain what ROCE stands for? Why is it important? Which do you think is the better method for appraising a capital investment project payback or ROCE? Why?

CHAPTER 13

WOMEN ENTREPRENEURS

IMPORTANCE OF WOMEN IN ENTREPRENEURSHIP
REASONS FOR BECOMING A WOMAN ENTREPRENEUR
CONSTRAINTS FACED BY WOMEN ENTREPRENEURS
KEY POLICY RECOMMENDATIONS
DEVELOPING WAYS FOR WOMEN ENTREPRENEURS

13.1 IMPORTANCE OF WOMEN ENTREPRENEURS

(Wikipedia entry on Women entrepreneurs)

Women entrepreneurs has been recognised as an important source of economic growth. Women entrepreneurs create new jobs for themselves and others, and also provide society with different solutions to management, organisation and business problems. However, they still represent a minority of all entrepreneurs. Women often face gender-based barriers to starting and growing their businesses, such as discriminatory laws around property, matrimonial and inheritance laws and/or cultural practices; a lack of access to formal finance mechanisms; less opportunity to attend trainings and gain experience; and limited mobility and access to information and networks. Even when laws say that men and women are equal, women entrepreneurs can still find it difficult to start and run their own business.

Women entrepreneurs can make a particularly strong contribution to the economic well-being of their families and communities, aid in poverty reduction and encourage women's empowerment, thus contributing to the 2030 Sustainable Development Goals (SDGs)[1]. Their contribution to social change cannot be understated. Women have traditionally worked in the home or for a family business, limiting the impact of their ideas and perspectives on the business world. By facilitating and supporting women in starting their own businesses, society can benefit from the woman's point of view for a number of reasons including: their ideas on new/ improved products and services, their ways of conducting business and the new types of exchanges between men and women in a professional context. These benefits have inspired governments across the world as well as various developmental organisations to actively promote women entrepreneurs through various schemes, incentives and promotional measures.

The role men can play Though this chapter is talking about women, it is important to remember that men play a role in the involvement of women in entrepreneurship. Growing economies such as Myanmar's need a workforce that is diverse in thought and skill set. Women are an asset to this workforce because of their own experiences and backgrounds. The encouragement that men bring to their sisters, mothers, daughter and

[1] The SDGs are a set of goals that governments and international organisations have put together to ensure that development takes into account social and environmental factors that contribute to sustainable development.

wives helps push society forward. Women need the support of their family members and friends to be able to succeed and feel ready to take on their own business. Men are crucial in helping change stereotypes and to break barriers. Myanmar is known for its state-declared gender equality, but not all women can easily start their own businesses. Some feel that their responsibilities to the family or the issue of working too closely with men is a barrier. The men in their lives can help counter these ideas and push women into fulfilling their dreams and contributing financially to the family.

Section questions: Do you think it is important to make a distinction between men entrepreneurs and women entrepreneurs? Why or why not?

13.2 REASONS FOR BECOMING A WOMAN ENTREPRENEUR

Women start their own businesses for a variety of reasons. They may have a solid idea for a business plan which they feel ready to execute. Some women feel passionate about solving career-related problems they are having or want to control their careers in a way that would be impossible when working for someone else. Women entrepreneurs may also want to maintain a more balanced life and have a flexible work schedule, or they might wish to translate a personal vision into a lucrative business.

Spotlight on real women entrepreneurs: Building my vision into a business

Ever since I was young I wanted to start my own school. I realized early that many people in Myanmar do not receive a good education and are not prepared for the job market. They leave school feeling shy, are unsure of what to do next and are without important skills that make them attractive to employers, such as speaking English. I told my parents that I wanted to provide the children of Yangon with a place where they receive both a governmental and international education to help them succeed.

My parents did not take me seriously at first. They thought it was an idea that I would soon let go of and that I was too young to take on the challenge. Once I outgrew this passion they hoped I would work for the family business. At 19

years old I started tutoring one or two children after my university classes. Every day the children would come to my house and I would provide them with additional education. Eventually more children started coming and my parents saw my dedication. They helped me secure funding and start my kindergarten.

Each year my school as grown. I began as a teacher and the business manager, but I now have a staff of teachers working for me. As the principal, I have grown the school to include more than a hundred students and now offer classes for all primary school children. After all of these years I am still happy that I made the decision to start my own school. It was not easy and I made mistakes, but I love the type of work that I am doing and I really believe that the children are benefitting from what we are doing.

Woman, 29, interviewed 16.12.2015 in Yangon

Along with the intense desire to see their vision carried out, these women also have a great ability to multi-task and are not fearful of the risks involved in being self-employed. Women are still facing many issues in the workforce and being their own boss, regardless of the challenges, can be more appealing than the issues they face in their current jobs.

Working independently does not mean that women abandon other parts of their lives. Their responsibilities and gender roles[2] assigned to them by society are still very much a part of their day, but women entrepreneurs may feel more in control when working for themselves. They find new ways of balancing the time spent with family and friends with their business as they can to a certain extent choose when to work.

Section questions: Do you think that women and men have different reasons for starting their own business? Why would the reasons be different? Can you think of other reasons why women would want to start their own business not listed above? Are there women entrepreneurs in your family or friend group? What were there reasons for starting their business? Do the reasons make sense to you?

[2] Gender refers to the behaviours and traits that society assigns to men and women who are expected to act in certain ways prescribed by their cultural context.

13.3 CONSTRAINTS FACED BY WOMEN ENTREPRENEURS

Even though women entrepreneurship is steadily rising, there are a number of challenges and obstacles that women entrepreneurs face. These barriers are varied and require women to be persistent and weigh the pros and cons of starting and running their business. Some of the constraints faced by women include financial difficulties, internal constraints, gender barriers, lack of education/ training and nascence of role models and relevant networks.

Securing funds is one of the most challenging aspects of starting any business, particularly for women as they have fewer personal financial assets than men. Women also have a harder time getting financed for the same business opportunities for a number of reasons such as the perception that they lack the skills to run a business or that they will not be successful enough to pay back the loans. Women may also have lower earnings and productivity levels because the amount of time they have available for work will be limited. The responsibilities they have in relation to household welfare also may make women risk averse as they feel that they cannot work late or on the weekends.

Women often face what is called internal constraints. They lack self-confidence and other personality traits important to entrepreneurialism such as assertiveness, ambition and vision. These constraints are rooted not only in their natural personality but can also be associated with how a culture expects women to behave. These constraints can make them unwilling to risk staring a business or expanding their enterprises. They may feel that they will not be capable of dealing with customers, suppliers and others connected to their business in a strong, convincing way. In addition, entrepreneurship is still considered a male-dominated field, and it may be difficult to surpass these conventional views.

Education is an important part in understanding how to start a business and feeling confident enough to do so. Women tend to be less likely to be educated and have less experience relevant to starting and managing a business, which may mean they have less potential for success (or perceive themselves as not prepared). Traditions regarding appropriate work for women results in a gendered division of labour. This limits women's access to productive work, as well as education, and their potential be successful. Often

the activities most readily available to women are those similar to their domestic tasks or are historically associated with women.

As a woman, day to day operations can be challenging when dealing with customers, suppliers, banks, etc. who constantly remind the entrepreneur that she is different. The expectation that the woman should be a mother or at home with the family can cause employees and others to have mixed feelings in dealing with a women boss. They might judge her or inadvertently treat her differently for not fitting into the traditional model of a woman working within the home.

Spotlight on real women entrepreneurs: Dealing with staff as a woman

My family has owned this restaurant in Yangon since I was little. Over a year ago my father decided to distance himself from the work and asked me to step in as the manager and accountant. I had never taken a business course or had any training related to this job. I tried my best to educate myself online about different aspects of business and learn some tips on good management.

While I have grown up around the staff and our suppliers most of my life, once I became the manager, things became difficult. The kitchen staff had always been good about listening to my father, but this stopped as soon as I started working. They do not pay me the same respect. They often say that they are listening, nod their heads, but then completely ignore instruction. They refuse to do things or ignore me. Suppliers will sometimes shrug off my complaints on the quality of meat or the delivery service. These things never happened to my father.

Though it can be challenging, I have found way to deal with the situation. I offer staff that follows direction or shows respect incentives through giving them gifts or taking them to the cinema. With the suppliers, I have learned to be firm. When I sense that they do not take me seriously as a woman, I tell them that I will not accept their behaviour. If it continues, I change suppliers and they lose a customer. It is sad as my father had relationships with them, but it is important for me to be firm and stand my ground.

Woman, 26, interviewed 15.12.2015 in Yangon

Role models offer new entrepreneurs incentives and ideas on how to shape their business practices. Women do not have many examples around them of women who have started and/or who are running a successful business. Role models are important as they provide examples of how certain attitudes, behaviours and actions lead to success. Role models also bring credibility to the choice of becoming an entrepreneur. There is also an absence of relevant networks. Women generally have a lower social position than men, which affects the kind of networks they can access or in which they can participate. Networks are important as they help entrepreneurs learn valuable information, find support and gain access to important resources. Without these relevant networks, women are at a disadvantage, especially in the earlier stages of developing a business.

Section questions: Why do you think women face different constraints than men when starting their own business? What personality traits do you think are most common in women? What traits are most common in men? How do these traits affect how women and men run a business? Do you have any role models that are entrepreneurs? What about them makes them your role model? How do their experiences and current work influence the type of work you want to do?

13.4 KEY POLICY RECOMMENDATIONS

It is helpful for women to have family, friends and others in their surroundings that support their decision to start and run a business. This helps reduce the constraints outlined above and provides them with stability. Yet this is only one element to encouraging women entrepreneurs and ensuring their success. Things must also change at the policy level to ensure that women have access to resources and are given the same opportunities as men.

There are many recommendations to be made to help women fulfill their dreams. Responsibilities towards their family can make running a business very complicated and there should be an increase in the availability of affordable childcare to give them more time for their work. There also needs to be equal treatment in the work place to motivate women and help them feel more comfortable in their choices

Individuals and organisations need to listen to the voice of women entrepreneurs when they discuss their needs and the constraints they face. Relevant policy changes can only occur if people know what the issues are and how they need to change. A women's entrepreneurial dimension in the formation of all SME-related policies needs to be added to account for the differences women and men face when running small and medium businesses. There should also be a periodic evaluation of the impact SME-related policies have on the success of women-owned businesses. Finally, policies need to promote the development of women entrepreneur networks to encourage and support growing businesses.

Section questions: What policy recommendations listed above do you think are the most important for women entrepreneurs? Why? Are there other recommendations you would add to the list? What are they and why are they important?

13.5 DEVELOPING A PATH FOR WOMEN ENTREPRENEURS

Given the constraints and barriers women face, and the need for change in policies and behaviors, it can seem impossible at times for women that they will one day turn their dreams into reality. These challenges are impossible. There are in fact many things that women can do on their own or places they can go to find the necessary resources and support for starting and running their own business.

The importance of training Clearing a path for women entrepreneurs starts with training. The provision of training is a central strategy to help women entrepreneurs move into a higher value sector. It gives them the skills to produce higher quality goods that are in demand, which bring higher prices in the market. Training can come in many forms, and offers women different types of information and support depending on what they require. For instance, incubators can be a key support mechanism for women SMEs, offering common space, access to information and technical assistance, as well as access to physical capital and office equipment. They also provide networking and mentoring opportunities with other entrepreneurs.

Since women can face time constraints, turning to the Internet as well as telephone and fax-based modes of information provision improves women's access to information

since they can use the services at times that fit their schedules. There is a wealth of information on entrepreneurship—anywhere from finance and marketing to management—available online. However, women need to keep in mind that the information varies in quality and can be overwhelming at times. Anyone searching for tips and information needs to focus on exactly what they are looking for as it is easy to think that everything is necessary and important. Women should also look for trusted resources, such as information provided by training centres, well known international NGOs, universities and trusted local organisations.

Education is one of the most direct paths to starting one's own business, and there are many ways to gain access to a good education. A constraint women face in starting SMEs is a lack of relevant education and experience. While it is easy to think that one needs an MBA or another high level business degree, this is not the only option. General business training is a vital way to fill this gap as long as it is designed to meet women's needs. This need can be met through distance learning which increases women's access to training, or through weekend courses at training centre. These programmes provide flexibility in terms of time while still offering women the information needed.

The role of mentors Mentoring as a form of training is useful before start-up as it can help women determine if business ownership really is the right career choice. Women entrepreneurs who have been working a long time can provide a variety of insights and recommendations. It has been found that women often want follow-up guidance after having had a chance to apply new skills and knowledge. Mentoring can address the specific problems faced by the women entrepreneur. Those looking to start a business can also learn a lot from young entrepreneurs who are just starting out. Sharing the challenges and successes in start-up can help both sides think about important aspects of their work.

Spotlight on real women entrepreneurs: Contributing to the growth of young entrepreneurs

I have been running my own business for almost 20 years now. I started as a seamstress and worked my way up to line manager and eventually to one of the highest managers in the factory. I was later hired in a company that sells sewing machines and, after several years of hard work, was given an executive position

and a partnership. I learned a tremendous amount from my boss over the years and made contacts all over Myanmar.

When I started my own garment factory, I knew I had to not only draw upon the network I had built over the years, but that I also wanted to be active in a group of female business women. I joined the Myanmar Women Entrepreneurs Association and began exchanging with women from all different sectors. Once a month we meet and talk about our experiences and share knowledge. We give one another tips on many things including how to network, the importance of finding balance with work and family and how to deal with customers. This network has helped me tremendously not only in my work but has introduced me to women with whom I can really talk.

The association is dedicated to helping younger women reach their goal of starting and running their own business. We offer scholarships, have a committee dedicated to youth development and are always ready to give advice and listen to these women. The type of support offered in the organisation is invaluable.

Woman, 40, interviewed 16.12.2015 in Yangon

Gaining access to mentors has proven in many cases to be very beneficial to women, especially in supporting women micro entrepreneurs. Unlike training programmes, mentoring can provide the follow-up contact women entrepreneurs require as willing mentors are available to answer questions every step of the way. Women can also ask their mentors for assistance after trying out new ideas learned in training programmes.

Mentoring can also be offered to individuals or groups. Individual mentoring may be more effective and have greater impact, as it will address problems specific to the women's businesses. Group-based mentoring can offer benefits such as group solidarity and the opportunity to learn from others' experiences. It is helpful when women are facing similar successes and challenges as they are often willing to share and help others grow. In addition, providing mentors and having women-only group programmes may increase the likelihood women will use these services.

It is important to remember that mentoring can be an expensive service. Using volunteer mentors can decrease cost, but mentor quality must be monitored. Women need to

consider whether the advice and information they are receiving is relevant and helpful to them. If possible, they should also do some research before working with a mentor to hear from others about their experiences and what mentoring services have the reputation of being the most helpful.

The role of SME support organisations There are many types of institutions and organisations outside of the government that play important roles in training, guiding and supporting women entrepreneurs. Government's role in promoting SMEs should be as facilitator not provider. Means of facilitating the SME sector include: simplifying legal and fiscal frameworks, promoting skill training and basic education, developing physical, social and economic infrastructure, and a gender sensitive policy environment. These elements are very important in helping women achieve their goals, but women can benefit from the support of other organisations as well.

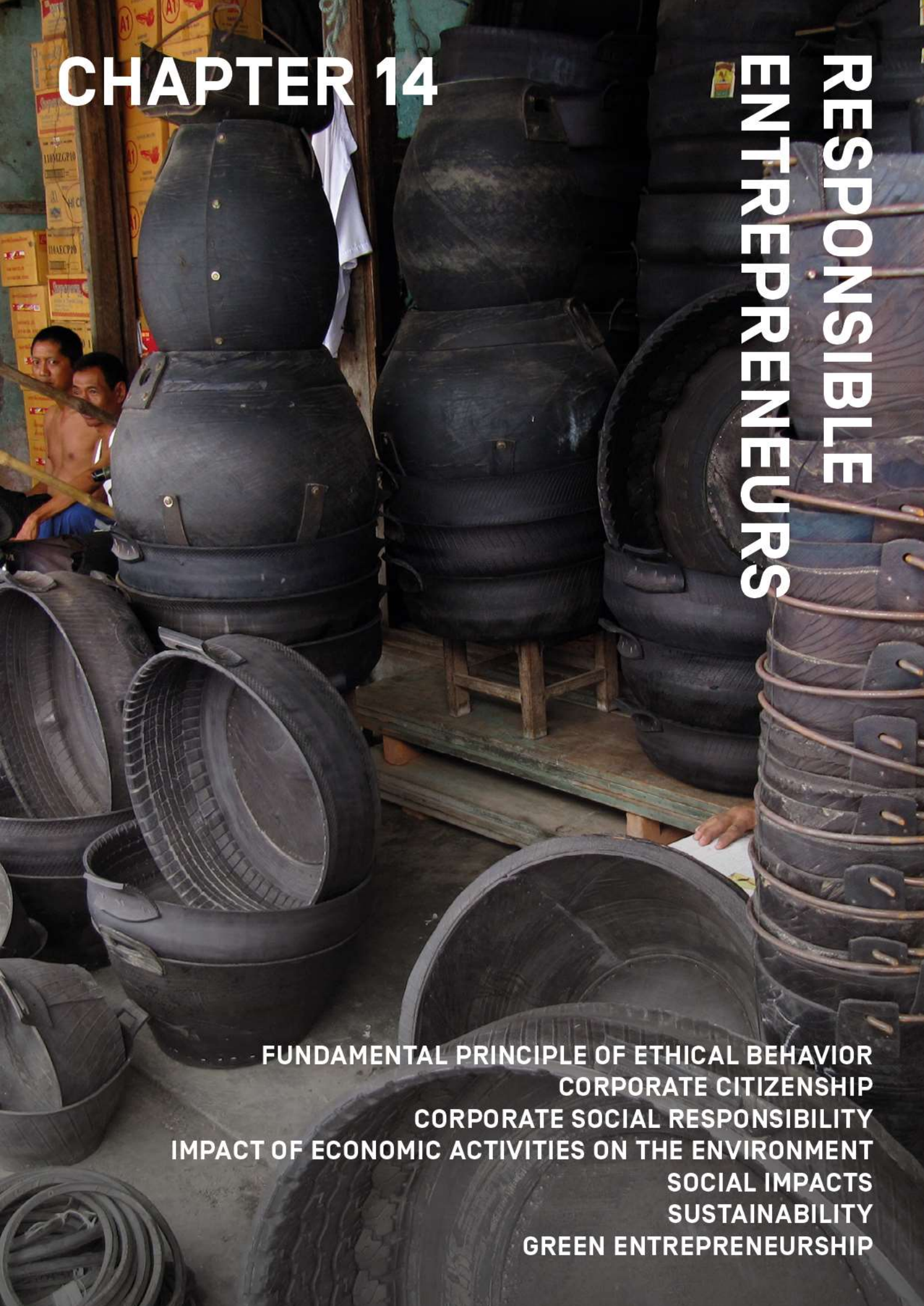
Local NGOs are key service providers and are often a better option, as they are smaller, less bureaucratic and closer to the people than some governments. They also provide experiences from other parts of the world which may be helpful at times. Decentralizing the operations of national and international NGOs, or developing partnerships, can help them achieve outcomes similar to local NGOs. Local NGOs (or those who have been working in the country for a long period of time) also have greater potential to be aware of gender constraints since they are closer to their clients—this is particularly true for those targeting women.

Universities and research institutes also contribute to SME development through provision of trainers and consultants and through direct research on the SME sector. This research highlights the sector's importance to the local, regional and national economy and can be vital to making women's contribution visible.

In addition to these institutions and organisations is the idea of networking, which is a central to accessing information, new customers and new suppliers. Women often must work harder to find time to network due to the multiple demands on their attention Networking is also important to the continuous development of SME support organisations, offering ways to disseminate best practices and develop new materials.

Section questions: What do you think are the most important things women can do

before starting a business? How do they overcome some of the constraints talked about earlier in this chapter? Why do you think mentors are considered to be so important? Do you have a mentor in your life? What has she/he done to help you? Have you ever mentored someone? Why or why not?



CHAPTER 14

RESPONSIBLE ENTREPRENEURS

FUNDAMENTAL PRINCIPLE OF ETHICAL BEHAVIOR
CORPORATE CITIZENSHIP
CORPORATE SOCIAL RESPONSIBILITY
IMPACT OF ECONOMIC ACTIVITIES ON THE ENVIRONMENT
SOCIAL IMPACTS
SUSTAINABILITY
GREEN ENTREPRENEURSHIP

14.1 FUNDAMENTAL PRINCIPLES OF ETHICAL BEHAVIOR

(Daft p. 130–131)

Ethics is concerned with what society considers to be right or wrong based on standards of behaviour. Ethics and law overlap in some ways as law seeks to address behaviour of which society disapproves. However, ethical principles may be adopted that discourage behaviour that is undesirable but legal. There are many examples of people doing things that we criticize but is not punishable by law. For example, someone might lie about work she/he has done to another colleague. This lie is not illegal but may seem unethical to others when they realise it is a lie.

The example above illustrates how ethics lacks the certainty usually provided by the law. Ethics have a component of individual perspective as well as societal views on what things are legal but are considered to be unethical. Views on morality differ, so even when ethical principles are put into place by professional bodies or commercial organisations, they may be regarded differently according to the moral principles of each individual.

All professions rely on adopting not only legal but ethical standards. If accountants behave unethically, their clients will lose confidence in their services, and society in general will no longer trust them or feel that they act in the public interest. The potential effects of this would be devastating, not only to accountants themselves, but the profession and its stakeholders, including individuals, organisations and others affected directly or indirectly by their work.

Approaches to Ethics (Daft p. 131, Dessler p. 457 and Scarborough p. 714)

Ethics is a subject that has interested philosophers throughout history because people and societies establish and interpret what is right and wrong in different ways. A simple way to illustrate how people approach ethics differently is to think of ethical behaviour in terms of duties that we must uphold or consequences that could arise from not behaving appropriately.

Those who think about ethics in terms of duties often have their foundations in religion or deeply embedded values, universally accepted by society. The most common

examples are the duties not to kill and to always tell the truth. Some people believe that this rule of no killing must be followed strictly while others believe in flexibility. For example, some may argue that it is right to kill if the cause is just, or to tell a lie if the purpose is noble. So if a frail and terminally ill loved one asks 'Am I dying?', it may sometimes be right to lie.

Codes of conduct issued by professional bodies, and corporate codes issued by business organisations, define responsibilities in terms of duties, and may provide guidance on the more common exceptions that apply. As it is impossible to define the appropriate response to every single human interaction, these codes can only serve as sets of minimum standards and have to rely on the inherent willingness of people to deduce what is right or wrong.

Ethical behaviour may also be defined in terms of consequences. Here, the right course of action is that which will result in the most acceptable outcome. "Most acceptable" in this case depends on the ethical stance of those who determine what outcome is desired.

There are those who weigh what is ethical in relation to what benefits the majority or serves the 'greater good'. In doing so, the ethical decision may disregard any impact on the minority, believing that a person or group should defer to the greater needs and influence of the majority. On the other hand, one could approach ethics by pursuing a consensus in order to accommodate the needs of both the majority and the minority. Finally, there are those who favor courses of action that are right for them. This last seemingly selfish approach to right and wrong was supported by influential economists who suggested that pursuit of self-interest is often a catalyst for the creation of prosperity through entrepreneurial innovation and risk taking.

A practical application of these different approaches to right and wrong can be applied to an example of mobile telephones on a bus or train. Should people using public transportation be denied the right to use their mobile telephones if it might bother someone? Applying what is outlined above, a person might:

— Decide on the course of action that is most desirable for the individual, which may in turn be based on profit motive or personal belief

— Prefer accommodating both groups by setting aside a limited number of "quiet" cars/carriages in which mobile phones cannot be used
— Propose that mobile phones are acceptable to most commuters, so the minority will have to put up with them

Using the duty-based and consequentialist-based approaches to ethical decision-making may result in different potential outcomes. Consider the example of a highly successful and dynamic CEO of a company who has been caught up in a scandal relating to his personal life. The scandal is reported widely in the national newspapers and on television, resulting in embarrassment for his organisation. Should he resign? The duty-based approach may suggest that, as a senior executive, he should adopt high moral standards in and out of work, and because he has failed to meet those standards, he should resign. The consequentialist may agree, stating that by not resigning it will result in damage to the reputation of the organisation as long as he remains in office.

However, the consequentialist may also disagree, arguing that by resigning the chief executive officer deprives the organisation of his knowledge, skill and experience, which will result in a lack of leadership and direction, at least in the short term. This argument may be reinforced by the view that, in future, other organisations may choose to accept resignations on the same basis; even though the individual's personal life should have nothing to do with his work.

Corporate Codes of Ethics (Inspired by Scarborough p. 722)

Corporate codes of ethics are published by private sector organisations in order to communicate their values and beliefs to stakeholders. These stakeholders include:

— Customers, whose buying decisions may be influenced by ethical considerations
— Shareholders, whose investment decisions may be influenced by ethical factors
— Employees, who have to know the standards expected of them
— Suppliers, who need to understand the expectations of their customers and also that they will be treated ethically during the course of the commercial relationship
— Lobby groups, who may have specific interests in certain practices of the organisation
— The community in which the organisation is situated, which may seek reassurance that the organisation will act in its interest as an employer and as a good "corporate citizen"

Section Question: Who do you think should define ethical standards in a business? Should the standards be based on duties or consequences? Should the standards be non-negotiable or changeable depending on the context?

14.2 CORPORATE CITIZENSHIP

(Scarborough p. 138–140 and visit the Boston Center for Corporate Citizenship http://ccc.bc.edu/)

Corporate citizenship has been used to describe how an organisation's values are shaped and the impact concepts of responsibility have on business decision-making.

Corporate Citizenship is the business strategy that values underpinning a company's mission and the choices made each day by its executives, managers and employees as they engage with society. Four core principles define the essence of corporate citizenship, and every company should apply them in a manner appropriate to its distinct needs of minimizing harm, maximizing benefit, being accountable and responsive to stakeholders and supporting strong financial results. Corporate citizenship allows for businesses to connect activities such as compliance with laws, endorsing standards and philanthropic work in a transparent way that informs stakeholders and the general public. This can only work, however, if it is supported by the highest levels of management.

Much of the debate in recent years about corporate social responsibility has been framed in terms of corporate citizenship, partly because of unease about using words like ethics and responsibility in the context of business decisions. Since businesses are comprised of more than one person, the idea of ethics and responsibility to society may be difficult to put together. The business itself will have a defined way of thinking about these issues, but so will the individuals who run and work in the business.

Section questions: What are the benefits to corporate citizenship? Do you think it is important or are there alternatives to social responsibility that you think would be better (i.e. the company is not engaged with social responsibility but rather the employees during their free time)?

14.3 CORPORATE SOCIAL RESPONSIBILITY

(For more information, visit http://www.slideshare.net/tresdsdsd/the-pyramid-of-corporate-social-responsibility)

Debates on organisations' social responsibilities focus on what these responsibilities are, how organisations should deal with stakeholders and what aspects of an organisation's environment, policies and governance are affected.

Businesses, particularly large ones, are subject to increasing expectations that they will exercise corporate social responsibility (CSR). In 1991 Dr. Carroll published the Pyramid of Corporate Social Responsibility which illustrates the four levels he believed are the components to CSR. These four levels of social responsibility including economic, legal, ethical and philanthropic.

Figure 66 Telenor myME Social Responsibility Programmes

Before getting into these specifics, it is worth nothing that businesses can "help" individuals and society as a whole in various ways. The most common three are being a social enterprise, CSR programmes or philanthropy. It is important to make the distinction between these three. Social enterprise/entrepreneurship is when entrepreneurs use the principles of enterprise (business behaviours) to create social change through their company. Social entrepreneurs do make a profit and function as a

normal business, but their products and services help people. CSR is a business approach that contributes to sustainable economic, social or environmental change. CSR usually consists of special programmes or parts of a business. The change that it spurs is not folded into the products and services the same way as done by social entrepreneurs. Philanthropy is the act of helping people through donations or time. Businesses can be philanthropic, but their help is not part of their daily business/how they make a profit. (Durieux and Stebbins p. 4–16)

Economic responsibilities Companies have economic responsibilities to shareholders demanding a good return, to employees wanting fair employment conditions and customers who are seeking good-quality products at a fair price. Businesses are set up to be properly functioning economic units and so this responsibility forms the basis of all others.

Legal responsibilities Since laws are created using society's moral views, obeying those laws must be the foundation of compliance with social responsibilities. Although in all societies corporations will have a minimum of legal responsibilities, there is perhaps more emphasis on them in continental Europe than in the Anglo-American economies where the focus of discussion has been whether many legal responsibilities constitute excessive, complicated procedures required by the government.

Ethical responsibilities These are responsibilities that require corporations to act in a fair and just way even if the law does not compel them to do so.

Philanthropic responsibilities According to Carroll, these are desired rather than being required of companies. They include charitable donations, contributions to local communities and providing employees with the chances to improve their own lives.

Corporate social responsibility and stakeholders Inevitably discussions on corporate social responsibilities has been tied in with the stakeholder view of corporate activity, the view that as businesses benefit from the good will and other tangible aspects of society, the business owes society certain duties in return, particularly towards those affected by its activities.

Impact of corporate social responsibility on strategy and corporate governance (Hill and Jones p. 395) Social responsibilities can impact what companies do in a number of

ways. The objectives and mission statement which informs stakeholders of strategic objectives incorporate social objectives which illustrates the board's belief that their CSR has significant impact on strategy.

As part of their guidance to promote good corporate behaviour among their employees, some organisations publish a business code of ethics. Social responsibilities are also interwoven in reporting as businesses report not only on operational and financial matters, but on ethical or social conduct as well. Some go further, producing social accounts showing quantified impacts on each of the organisations stakeholder constituencies.

Impact on corporate governance could include representatives from key stakeholder groups on the board, or perhaps even a stakeholder board of directors. It also implies the need for a binding corporate governance code that regulates the rights of stakeholder groups.

Ownership and CSR Having talked about the social responsibilities of companies, we also need to consider the responsibilities of shareholders. One view is that shareholders, by buying shares in the hope of gaining greater returns than they could achieve from a safe investment, also have a responsibility to carry out a policy that is consistent with the public welfare.

One of the main problems with this view in relation to large corporations is the wide dispersion of shareholders. This means that shareholders with small percentage holdings have negligible influence on managers. In addition, the ease with which shareholders can dispose of shares on the stock markets arguably loosens their feeling of obligation in relation to their property. This then raises the question of why the speculative (and possibly short-term) interests of shareholders should be more important than the longer-term interests of other stakeholders.

In corporate governance discussions, the ideas of ownership responsibilities have had a significant influence because of the importance of institutional shareholders. Not only do they have the level of shareholdings that can be used as a lever to pressure managers, but they themselves have responsibilities as trustees on behalf of their investors.

Section questions: Do you think CSR is an important part of business? Why or why not? What are the advantages of having a CSR plan in place? The disadvantages? Should all companies be required to have a CSR component to their business?

14.4 IMPACT OF ECONOMIC ACTIVITIES ON THE ENVIRONMENT

(Daft p. 69 and Scarborough p. 727)

Taking into account the impact a business has on people is only one part of CSR. Companies should also take into account the effects they have on the environment. Environmental footprint is the impact that a business's activities have upon the environment including the resources it requires and pollution emissions.

At an individual firm or business level, impact on the environment can be measured in terms of environmental costs in various areas. Much business activity takes place at some cost of the environment including:

— Depletion of natural resources
— Noise and aesthetic impacts
— Residual air and water emissions
— Long-term water disposal (exacerbated by excessive product packaging)
— Uncompensated health effects (some leading to chronic illness)
— Change in the local quality of life (through for example the impact of tourism)

Several companies have tried to reduce their waste all while contributing to the wellbeing of their customers. For example, in May 2008 Marks and Spencer (M&S) introduced a 5p charge for its single use food carrier bags in all its UK stores. M&S aimed to:

— Encourage customers to reduce their bag usage by changing from single use carrier bags to reusable bags
— Raise monies for the charity Groundwork to invest in creating or improving greener lining spaces (parks, play areas and gardens)

By 2013 M&S intended on reducing carrier bag usage by 1/3 and send no waste to land fill from that date.

Associated costs While negative impacts on the environment need to be avoided for the

greater good of society, companies need to also be aware of the costs associated with pollution of all types. The International Federation of Accountants (IFAC) report lists a large number of costs that the business might suffer internally:

Direct or indirect environmental costs
— Waste management
— Remediation costs or expenses
— Compliance costs
— Permit fees
— Environmental training
— Environmentally driven research and development
— Environmentally related maintenance
— Legal costs and fines
— Environmental assurance bonds
— Environmental certification and labeling
— Natural resource inputs
— Record keeping and reporting

Contingent or intangible environmental costs
— Uncertain future remediation or compensation costs
— Risk posed by future regulatory changes
— Product quality
— Employee health and safety
— Environmental knowledge assets
— Sustainability of raw material inputs
— Risk of impaired assets
— Public/customer perception

Clearly failing to take sufficient measure of environmental impact can have a significant effect on the business account as well as the outside world.

Section questions: Why do you think we need to consider the environmental impact of business activities? Is this something you have considered when thinking about your

business plans? Why or why not?

14.5 SOCIAL IMPACT

Party because of the publicity generated by reports by various organisations focused on climate change, there is now significant focus on the environmental impact of business's activities. However corporate social responsibility does not start and end with the environment. Organisations need to consider other aspects of behaving in socially responsible ways. The direct harm that can be inflicted on people needs to be considered by companies. They must take into account any potential physical or mental harm they can cause due to their activities. In addition to staff that can recognise potential issues, board members and external groups also monitor the impact businesses have on the wellbeing of people. These external voices help bring about change through policy-making and media attention. Below is an example taken from the medical world.

Case Study (http://depts.washington.edu/sphnet/wp-content/uploads/2013/01/Angell.pdf)

It is unethical for US researchers to test expensive treatments on people in Third World countries who are unable to afford those drugs and it is considered unethical by many to give volunteers placebos instead of treatments that are known to work. There have been debates in the US over these issues and over the rules for conducting studies in countries where ethical standards may be less stringent than in the United States.

In 1997, Dr.s Peter Lurie and Sidney M Wolfe of Public Citizen's Health Research Group cited 15 government-financed studies that, they said, were using unethical methods to test whether various treatments could block the spread of the AIDS virus from a woman to her newborn child. All tests were being done in developing countries. Women were given a placebo even though the drug AZT had shown to prevent babies from contracting AIDS from their infected mothers.

Supporters of the studies argued that giving placebos was valid because the radically different economic conditions in developing countries, where AZT was not widely available, made it virtually impossible to do the type of research that had become the

standard in developed countries.

Those opposing the study stated that the experimental treatment should be tested against the best-established treatment, whether or not that treatment is available in the host country. They viewed the administering of placebos, when an effective treatment is available, as unethical. Drug companies cannot ask people to participate in a study when they are at a disadvantage of receiving the treatment due to circumstances such as poor health care. Furthermore, it is unethical for researchers to test products in poor countries because the cost is less, and the rules are less stringent. If treatment proves to be effective, it is the responsibility of the drug company to make the medicine available to participants. Researchers should not abandon their volunteers after the study is completed, they said.

Section questions: Think about the case study example of a company working in another country that is not their own. Do you think these companies should have their own set of ethical standards or should they simply follow the local laws? Should they have the same set of standards at home and in other countries? Should they be different ethical standards? Why?

14.6 SUSTAINABILITY

For organisations, sustainability involves developing strategies so that the organisation only uses resources at a rate that allows them to be replenished (in order to ensure that they will continue to be available). At the same time emissions of waste are confined to levels that do not exceed the capacity of the environment to absorb them.

Sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are made consistent with future as well as present needs. Sustainable development takes into account that the present is important, but that companies must also plan for the future.

Section questions: Sustainability is a term we hear often. What does it mean to you? What do you want it to mean for your business?

14.7 GREEN ENTREPRENEURSHIP

(To learn more, see Koester)

What is a green entrepreneur?

Green: A product, service or process that either benefits the environment or reduces the negative environmental impact of existing products, services or processes.

Entrepreneur: A person who is willing to launch a new venture or enterprise and accept full responsibility for the outcome.

Putting these together, a green entrepreneur is someone who starts a business to make or offer a product, service, or process that benefits the environment.

Ecopreneur: An entrepreneur who makes and sells environmentally friendly products and services. This term was thoroughly explored in the book Green Your Small Business by Scott Cooney.

In a market-based economy, entrepreneurs play a critical role in the eventual adoption of green business practices by the wider business community through their leadership. Much of green is about solving old problems in new ways. For example:

- How can we create energy without polluting the environment?
- How can we produce or sell goods using as few resources as possible?
- How can we keep our houses warm in winter and cool in summer without burning fossil fuels?
- How can we build vehicles that use as little gas as possible?

Green entrepreneurs are people who have (or seek out) the knowledge, initiative and resources to solve these problems or find innovative ways to bring existing solutions to market.

Why Become a Green Entrepreneur?

— The adoption of environmentally responsible business practices can move to a sustainable business framework provides numerous niches that enterprising

individuals and firms can successfully identify and service. These include the development of new products and services, improvements to the efficiency of existing firms, new methods of marketing and the reconfiguration of existing business models and practices

- Green entrepreneurship provides new opportunities for the first movers who identify and exploit such opportunities—it has the potential to be a major force in the overall transition to a more sustainable business paradigm
- Some innovators are naturally curious about finding new ways to create things. They might be targeting a market niche, but the desire to do something good for the planet is what really drives them. For example, a manufacturer of fuels substitutes in Myanmar
- For others, helping the environment is an added benefit. For example, running a manufacturing company that uses energy-efficient and low-waste processes is good for the environment, but it can also be cost-effective

Issues for Emerging Green Entrepreneurs Some of the important issues that need to be dealt with can be broadly grouped into these four categories: defining what is meant by green entrepreneur, determining the barriers and triggers, policies for ecopreneurship and learning from examples.

Defining what constitutes a green entrepreneur.

Attempts to profile 'green' or environmentally responsible entrepreneurs is a relatively under-researched field.

- Do such ecopreneurs differ in any significant way from more conventional entrepreneurs?
- How can these differences be measured (i.e. demographically, regarding industry concentration and soon)?
- How successful are green entrepreneurs compared with conventional entrepreneurs? Is there a 'typical' profile of a green entrepreneur?
- What are the difficulties in researching this concept?

Determining the barriers and triggers to environmental entrepreneurship

- What are the survival and failure rates of such entrepreneurs?

- How do these compare with other firms?
- What is the best way to measure 'success' in an eco-friendly entrepreneurial venture (through monetary or environmental outcomes)?
- What factors serve as either a barrier or a trigger to their activities?
- What are the forces and process that give rise to green entrepreneurship?
- What are the practical steps that can be taken to foster eco-entrepreneurship in new and existing firms?

Policies to foster ecopreneurship Policy frameworks can promote a greener perspective in existing and nascent entrepreneurs. Legislation, government regulation and industry-support agencies all have a role to play in shaping the way that business conducts its activities. Other stakeholders, such as lobby groups, non-governmental organisations (NGOs), industry associations and local communities can also influence the context in which ecopreneurs operate. The activities of these bodies need to be encouraged to foster environmental entrepreneurs

Learning from examples

Entrepreneurs often like learning by hearing the stories of other successful businesspeople.

- What are the stories and experiences of past and present ecopreneurs?
- What lessons can be earned from them, and how can this information be effectively disseminated to other current and would-be ecopreneurs?

Section questions: How important is green entrepreneurship? Why is it important? How do you envision making your business greener? Will that be a priority for you?

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