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SYLLABUS

CORPORATE GOVERNANCE, VALUES AND ETHICS

(M-247)

UNIT–I

Corporate Governance: Issues, need of corporate governance code, Code of Corporate Practices, Social Responsibility of Corporates, Corporate Social Reporting, Corporate Governance and the Role of Board(BOD), Corporate Governance System Worldwide, Corporate Disclosure and Investor Protection in India.

UNIT–II

Value impact in Business: Indian Value System and Values, Teaching from scriptures and tradition (Geeta, Ramayanna, Mahabharata, Upanishads, Vedas, Bible and Quran)

UNIT–III

Ethics impact in Business: Ethical Issues in Capitalism and market systems, Ethics and social responsibility, Ethics and marketing, Ethics in finance, Ethics and human resource, Ethics and Information Technology. *Ethical theories and approaches, Intellectual property* rights like designs, patents, trademarks, copy rights.

UNIT–IV

Corporate Strategy: Global industrial competition, Information Technology, Competitive Strategy, Benchmarking, Total Quality Management, Brand Building, Promotional *Strategies, Corporate Restructuring, Mergers and Acquisitions, Supply Chain Management,* Horizontal Organisation, Diversification, The Indian Scene.

UNIT 1 TOP MANAGEMENT AND CORPORATE GOVERNANCE

STRUCTURE

1.0 *Learning Objectives*
1.1 Introduction
1.2 Issues and Needs of Corporate Governance
1.3 The Role of Board Directors
1.4 Responsibilities of Board Directors
1.5 Strategic Management: Role of the Board
1.6 Board Committees
1.7 Code and Laws for Corporate Governance
1.8 Reports of Committees on Corporate Governance
1.9 Government Initiatives
1.10 National Award Initiated by the Government of India
1.11 *Corporate Governance System Worldwide*
1.12 Corporate Social Responsibility
1.13 Why Business should be Socially Responsible
1.14 Social Responsibilities Models
1.15 Corporate Social Reporting
1.16 Corporate Discloser and Investors Protection in India
- *Summary*
- *Review Questions*
- *Further Readings*

1.0 LEARNING OBJECTIVES

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

- know about the role of board directors.
- discuss about the strategic management.
- explain the reports of committee on corporate governance.
- describe why business is social responsible?
- discuss about the corporate discloser.

1.1 INTRODUCTION

The major players in the area of corporate governance, within the corporation are corporate board, shareholders and employees. Externally, the pace for corporate governance is set by the government as the regulator, customer, and lenders of finance and social ethos of our times. The scope and extent of corporate governance are set by the legal, financial and business framework. In essence, corporate governance is the system by which companies are directed and controlled. Board of directors are responsible for the governance of their enterprises.

Corporate Governance: A Multi-faced Issue; The Chartered Secretary, May'97.

1.2 ISSUES AND NEEDS OF CORPORATE GOVERNANCE

As it is very clear from the above statement, people at the helm of affairs of an enterprise are responsible for the good governance of the enterprise. The Board of Directors are responsible for the governance of their enterprises, in a given economic, political and social environment. The role of the board and the shareholder is interactive in nature and therefore the quality of governance depends upon the level of interface established by them. The quality of the board also depends upon a number of other factors, such as its size, its composition in terms of number and proportion of whole-time and part time directors, the chairman of the board, power and position of the CEO, the merit and qualification of the directors, etc. In this unit we will try to find out the roles and responsibilities of the board and other executives for good governance.

1.3 THE ROLE OF BOARD DIRECTORS

Law–Related Expectations

The Indian Companies Act does not define the Board of Directors (BoDs). Even 'Director' is simply defined as 'it includes any person occupying the position of Director, by whatever name called' [Sec.2 (13)]. With the help of this open definition of Director, we may infer that a Board of Directors is a group of individuals each of whom is labeled as 'Director' (or by any other title with identical substantive intention). No person is to hold more than 20 directorships.

Section 269 says that, the commencement of the Companies (Amendment) Act, 1988, certain specified public companies or private companies which

are subsidiaries of public companies, shall have a Managing or Wholetime Director, a Manager, and each such appointment must be made with prior approval of the central Government.

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What is a BoDs suppose to do? This again we can know inferentially by referring to a definition of 'Manager' and 'Managing Director' in Section 2 of the Act, and also Sections 291–93. Both these incumbents have to exercise their powers of management's 'subject to the superintendence, control and direction of the Board'. Thus, the BoDs, in broad terms, is expected to perform the role of overseeing the running of the enterprise by its chief executive.

On whose behalf does the BoDs perform this role of overseeing? It is expected to do this on behalf of the shareholder. It is they who elect the directors on the board. And it is the BoDs, which, in turn, selects the Chief Executive.

The directors individually have no powers in the eyes of law. It is only the collective body of directors, *i.e.*, the board, which has a superior total power over the Chief Executive. The intent of the Indian Companies Act appears to include only outside non-employee directors on the board. Otherwise, if internal wholetime Executive, say the MD were to be the directors on the board, how could they exercise 'superintendence, control and direction' over themselves?

Section 291 stipulates that the BoDs shall be entitled to exercise all such powers, and to do all such acts and things as the company authorizes to exercise and do, except those things which can be done in a general meeting of the company. The powers exclusive to the BoDs (Sec. 292) are:

- To make calls on shareholders in respect of money unpaid on their shares
- To issue debentures
- To borrow money otherwise than through debentures
- To invest the funds of the company
- To make loans.

Correspondingly, Section 293 restricts the powers of the BoDs, by making them subject to the consent of general meeting of the company, in respect of selling, leasing or disposing of the property of the company; remitting debt due by the director; borrowing money to an extent which exceeds the net worth of the company etc. The Board of Directors is expected to meet once in a quarter and the quorum for a valid meeting of the board is one–third of the total strength or two directors, which is higher. The power to declare dividends is exclusive to the BoDs. Section 322 of the companies Act allows 'memorandum of association'

of a limited company to provide for a director or directors with unlimited liability.

Managerially–Derived Expectations

The dimension relating to the managerially derived expectations of the Board of Directors role seems to be of relatively recent origin. In more than two decades or so, industrial development had been marked by far-reaching technological changes, leading to equally fundamental competitive reorientation at the global level. As a result, many erstwhile great names in the industry have been humbled. With such rapidly mounting changes and uncertainties, the role of BoDs has begun to be viewed from much wider and long-term perspective beyond the minimum requirements of the law. Probably, upto 1970's, the duty of BoDs to superintend, control and direct had gone by defaults. Stable environment had helped this key role to remain dormant. What is then the renewed ramifications of this role at present? These are meant to ensure that:

- The enterprise continues to remain effective on the standpoint of technology parameter.
- The enterprise continues to achieve healthy market growth in competitive conditions.
- Divestments and diversification take place on sound lines.
- Long-term productivity and quality are never sacrificed at the alter of short term profitability.
- Judicious earnings retention policy is adopted for financing growth, modernization, etc.
- Serious and sustained attention is adopted towards building a sound system of human values and exalted corporate culture.

It is a common observation that BoDs function rather passively. Often the members are selected not because of their knowledge and competence but because of their compatibility, prestige or esteem in the community. Usually, the Chief Executive Officer or the group of promoters has free reign in choosing the directors and in having them elected by the shareholder. The directors thus selected often feels that they should go along with any proposal made by the CEO and his group. Interestingly, the board members find themselves accountable to the very management they are expected to oversee.

Over the recent past, however, lending institutions, financial media and corporate analysts have seriously questioned the role of BoDs. The investors and government in general are better aware of the role of the BoDs. Though the Companies Act throws some light on the powers of the BoDs and the restrictions placed on those powers, it does not specify to whom

they are responsible and what for. However, there is a broad agreement that BoDs' appointed or elected by the shareholders are expected to:

- Oversee the management of the company's assets
- Establish or approve the company's mission, objective, strategy and policies
- Review management actions and financial performance of the company
- Hire and fire the principal executive and operating officers of the company.

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An important issue in this context is: should BoDs merely direct or may they manage also? Many experts and practicing top managers say that BoDs should only oversee and direct, and never get involved with the detailed management. There are others who feel that, for direction to be realistic and sensible, some in-depth involvement with details is necessary. The majority view, however, is in favour of directors directing the affairs of the company and not managing them.

1.4 RESPONSIBILITIES OF BOARD DIRECTORS

The board is expected to act with "due care". That is, they "must act with that degree of diligence, care, and skill which ordinarily prudent men would exercise under similar circumstances in like positions". If a director or the Board as a whole fails to act with due care and, as a result, the company in some way, is harmed, the careless director or directors may be held personally liable for the harm done.

Further, they may be held personally responsible not only for their own actions but also for the actions of the company as a whole. In addition, directors must make certain that the company is managed in accordance with the laws and regulations of the land. They must also be aware of the needs and demands of the constituent groups so that they can bring about a judicious balance between the interest of these diverse groups, while ensuring at the same time that the company continues to function.

1.5 STRATEGIC MANAGEMENT: ROLE OF THE BOARD

According to Bacon and Brown, BoDs, in terms of strategic management, have three basic tasks.

- **To initiate and determine:** A board can delineate an organisation's mission and specify strategic options to its management.

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- **To evaluate and influence:** A board can examine management proposals, decisions and actions; agree or disagree with them; give advice and offer suggestions; develop alternatives.
- **To monitor:** By acting through its committees, a board can keep abreast of developments, both inside and outside the organization. It can thus bring new developments to the attention of the management, which it might have overlooked. While the BoDs are not expected to involve itself in day-to-day operating decisions, they are nonetheless expected to consider and give their views on all such matters that have long-term connotations. In fact, such matters by convention are referred to the board. These relate to issues such as introduction of new product, new technology, collaboration agreements, senior management appointments and major decisions regarding industrial relations.

The directing function of the board has internal and external components. *Internal components* relates to various actions taken by the executives and their implications for the organization, including R&D, capital budgeting, new projects, new competitive thrust, relationship with financial institutions and banks, foreign collaborators, major customers and suppliers. External component relates to identifying broad emerging opportunities and threats in the environment and feeding them to the management so that "strategic mismatch do not occur". The board should see that the organization always remains in alignment with the social, economic and political milieu.

1.6 BOARD COMMITTEES

The provision of Section 292 of the Companies Act provides for delegation of powers by the BoD to the Committee of Directors of the powers regarding (a) borrowing money for the company otherwise than for debentures, (b) investing the funds of the company, and (c) making loans by the company.

In practice, however, Boards do appoint—specific committees for in-depth exploration of certain matters *e.g.*, diversification project, shutting down a plant. These committees work for a specified period and submit their views to the full board. There are standing committees, which meet in the interval between the board meetings, and are expected to devote greater attention to details in important matters arising from those functions. It is the outside directors who officially comprise such committees. Some important committees usually set up by the board, comprising outside directors are as follows:

Audit committee: It consists of independent directors who report to the board. Usually the committee acts as a link between the board and the external auditors. They look into the issues raised by the external

auditors in greater details. Some of the functions of the audit committee are:

- To review the interim and final accounts in Toto.
- To solve any problem they come across while completing the audit with due consultation with the independent auditor.
- To make recommendations regarding the audit fees, selection and replacement of the auditors.

Remuneration committee: This committee reviews the remuneration packages of the executive directors and other top-level managers. It consists of independent directors and drafts the remuneration policy of the company, which checks the unreasonable increase in the executive compensations.

Nomination committee: Nomination committee is usually set up to select new non-executive directors. The chairman of the board heads the committee.

1.7 CODE AND LAWS FOR CORPORATE GOVERNANCE

For any concept or idea to form a part of our existence or business needs to be put in papers in distinct terms, so that they are understood and followed by all in a similar fashion. These are called rules or codes of conduct. These are principles and standards that are intended to control, guide or manage behaviour or the conduct of individuals. However, codes are self-imposed and regulations are imposed by the states. There are many corporate governance codes developed by non-governmental organizations, stock exchanges, investor groups and professional associations.

Government also issues rules concerning corporate governance through capital market regulatory body like SEBI and by enacting laws. Here we will try to understand codes of corporate governance recommended by various committees and some relevant laws enacted by the government.

1.8 REPORTS OF COMMITTEES ON CORPORATE GOVERNANCE

As it was explained in the previous units the events in the corporate world (through out the world) raised concern about standards of financial reporting and accountability of management. Many believe that the failures could have been avoided had the companies followed good governance. In recent years, governments and corporates have made

sincere efforts in designing and implementing codes for good corporate governance. Some of the reports on corporate governance published abroad and in India are:

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- Cadbury Committee Report
- CII Committee Report
- Kumara Mangalam Birla Report
- Narayana Murthy Committee Report.

Cadbury Committee Report

The Cadbury Committee was set up in May 1991 by the Financial Reporting Council of the London Stock Exchange to address the financial aspects of corporate performance. The sponsors of the committee were concerned at the perceived low levels of confidence, both tin the financial reporting, and in the ability of auditors to provide safeguards which the users of the company reports sought and expected. The move to set up the committee was to improve the standards of financial reporting and to arrest any likely damage to London's reputation as a financial centre and the reputation of the British accounting firms.

The Committee published its report and code of best practice in December 1992. From July 1993; all companies registered in the UK and listed on the London Stock Exchange have been obliged to state in their Annual Report how far they comply with the code, and to give reasons for areas of non-compliance.

The Code of Best Practice has been divided into four sections—the first concerning the role of the board of the directors and covering such matters as the duties of a board, its composition; the second dealing with the role of the outside non-executive directors; the third covering executive directors and their remunerations, and the final section addressing questions of financial reporting and financial controls. The major recommendations made by the committee are as follows:

- *A single person should not* be vested with the decision making power *i.e.,* the roles of chairman and chief executive should be separated clearly.
- The non-executive directors should act independently while giving their judgement on issues of strategy; performance; allocation of resources; and designing the code of conduct.
- A majority of directors should be independent non-executive directors, *i.e.,* they should not have any financial interests in the company.
- The term of the director can be extended beyond three years only after the prior approval of the shareholders.

- A Remuneration Committee with majority of non-executive directors should decide on the pay of the executive directors.
- The Interim company report should give the balance sheet information and should be reviewed by the auditor.
- The information regarding the audit fee should be made public and there should be regular rotation of the auditors.
- An objective and professional relationship with the auditors must be ensured.
- It must be reported that a business is a going concern.

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CII Report

Post liberalization years saw major upheavals in the Indian corporate world. Growing international competition, growth in the economy as well as scams and frauds brought forth the importance of corporate governance. The Confederation of Indian Industry (CII) took the initiative to draft some codes of corporate governance. A national task force on corporate governance was set up in mid 1996 under the leadership of Mr. Rahul Bajaj, Ex.-President, CII, and then CMD, Bajaj Auto Ltd. The committee issued desirable corporate governance. The major recommendations are as follows:

- The board should meet minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.
- At least 30% of the board (where the chairman of the company is non-executive) and 50% (where the position of the chairman and managing director is combined) of listed companies with a turnover of Rs.100 crores and more should comprise of professionally competent and independent non-executive directors.
- No person should hold directorships in more than 10 companies. In an earlier draft of the code this number was to exclude directorship on the company's subsidiaries (50% or more of equity holding) and affiliates (25% or more of equity holding).
- While re-appointing members of the board, companies should give the attendance record of the concerned directors. If a director has not been present (absent with or with out leave) for 50% or more meetings, then this should be explicitly stated in the resolution that is put to vote. As a general practice, one should not re-appoint any director who has not had the time to attend even one half of the meetings.
- Non-executive directors should actively participate in board affairs and not be passive advisors, have clearly defined responsibilities

within the board, and should be literate in understanding financials of the company.

- Non-executive directors should be adequately compensated through commissions and stock options. The need for remuneration committee of the board has been brushed aside as not being necessary.
- Board members should be provided timely and adequate information to enable them to discharge their duties. A comprehensive list of illustrations is provided in the code.
- Listed companies with a turnover of at least Rs. 100 crores and a paid up capital of at least ₹ 20 crores must appoint audit committees of the board within two years.
- Major Indian Stock Exchanges should gradually insist upon a compliance certificate, signed by the CEO and CFO which clearly sates that, the management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual reports, and which also suggest that the company will continue in business in the course of the following year; the accounting policies and principles confirm to standard practice, and where they do not, full disclosure has been made of any material departures; the board has overseen the company's system of internal accounting and administrative controls system either directly or through its audit committee.

1.9 GOVERNMENT INITIATIVES

From the government's side, there have been swift moves through law and regulations made by the Department of Company Affairs (DCA) and Securities and Exchange Board of India (SEBI) to hasten the process of bringing improvements in the Corporation's functioning. The DCA has amended Companies Act at short intervals for this purpose. Numbers of provisions in the Companies Act 1956 concerning corporate governance have been inserted in the Act through Companies (Amendment) Act 2000. Important changes to improve corporate governance in this Act are:

- Providing for Director's Responsibility Statement (Section 217(2A))
- Board to report in cases where buyback was not completed within the time specified in sub-section (4) of Section 77.
- Small shareholders to get representation through Director (Section 252)
- Limitations in Directorship in companies (Section 274 & 275)
- Constitution of Audit Committees (Section 292A)

- Providing for higher penalties (tenfold increase) for offences provided in various sections of the Companies Act etc.

The Amending Act of 2000 thus increased manifold, the duties and responsibilities of the Directors in the companies as a step to improve the corporate governance.

1.10 NATIONAL AWARD INITIATED BY THE GOVERNMENT OF INDIA

Realizing the significance of efficient financial markets in achieving higher growth rates in economy, The Honorable Union Finance Minister Shri Yashwant Sinha initiated several measures to promote corporate governance among Indian companies and for orderly development of Indian financial markets. While presenting the Budget for 1999–2000, he mentioned:

Lately, there has been considerable debate on the importance of good governance of Indian corporates. It is increasingly being realized that if investors have to be drawn back to the capital market, companies have to put their houses in order by following internationally accepted practices of corporate governance. This is necessary to enhance investor confidence. To help promote this trend, I propose to institute a National Award for Excellence in Corporate Governance.

In order to promote good governance practices in Indian companies and enhance investors' confidence in the market, the Government of India awards the National Award for Excellence in Corporate Governance every year. The Award is recommended by a Panel consisting of eminent persons from financial markets and corporate world. The Ministry of Finance (Department of Economic Affairs) in the Government of India constitutes the panel. Unit Trust of India has come forward to sponsor the award. UTI Institute of Capital Markets also provides research support to the Panel.

In the year 1999 the panel constituted for the purpose initially short-listed the following nine criteria for evaluation. Two criteria were subsequently added to the list later. The broad criteria prescribed by the first panel for screening the companies for excellence in corporate governance were as under:

1. Adequate representation of independent directors on the Board.
2. Existence of institutions, like audit committee, which enable the Board to adequately guide the management.
3. Adherence to prescribed accounting standards and quality of disclosures relating to financial and other information provided to shareholders in the Annual Reports.

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4. Frequency and content of communication of financial and operating data to the shareholders and to the public.
5. Investor—friendly procedures and practices.
6. Enhancement of shareholder value vis-à-vis the industry performance.
7. Discharge of social obligations and obligations related to employee welfare.
8. General concern for the environment.
9. Ethical code of conduct.

In the later years, the following two criteria were added to the list:

1. HRD policies for succession, delegation, and empowerment of employees.
2. Innovative practices to improve quality of life for other stakeholders of the company.

1.11 CORPORATE GOVERNANCE SYSTEM WORLDWIDE

Implementation of Sabarnes-Oxley Act, 2002 in the USA. In response to the public outcry against the recent corporate scandals like, Enron, World Com, etc., a new legislation viz., the Sarbanes-Oxley Act has been enacted on July 30, 2003 in the U.S.A. in order to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws. The legislation initiated major reforms in the following areas:

1. Public Company Accounting Oversight Board
2. Auditor's independence
3. Conflict of interest
4. Corporate responsibility
5. Enhanced financial disclosures
6. Analyst conflict of interest
7. Corporate and criminal fraud accountability
8. White-collar crime penalty enhancements
9. Corporate fraud and accountability
10. Studies and reports.

European Union

The European Commission recently completed a study of 43 different corporate governance codes and proposed to merge all of them to create a single, consistent code.

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Germany

The German government had announced details of comprehensive new voluntary guidelines to improve their corporate governance practices. The code aims at strengthening the rules concerning auditor and supervisory board independence, gives shareholders a limited role in takeovers, recommends that companies disclose board remuneration individually, and requires a company to disclose whether or not they comply with the code.

Ireland

Irish Association of Investment managers revealed a high level of compliance amongst Irish corporates with the Combined Code on governance implemented by LSE. 97% of firms allow shareholders to vote on re-election of directors every three years. 85% and 79% of them have remuneration and audit committees respectively comprised fully of non-executive directors. 79% of them have separate role for the chairman and the chief executive officer.

Asian and Latin American markets

S&P carried out a survey of 350 Asian and Latin American companies on 10 points based on 98 information attributes grouped into 3 categories: financial transparency and information is closures; investors relation, and ownership structure; and board and management structure and practices. 19 out of 43 Indian companies managed to get score of 4; Infosys scores 7.

Kenya

Kenya's Capital Market Authority has introduced new guidelines to improve corporate governance practices. The guidelines include: appointment of independent directors, constitution of nomination committee, the role of CEO and Chairman to be separated; limiting the term of director on the board subject to shareholders' approval and frequent appraisal of the board.

Thailand

Stock exchange of Thailand is set to introduce a new committee to strengthen corporate governance and make best corporate practice a national priority. Of the 580000 companies, nearly half do not report balance-sheet and a quarter of them do not pay even taxes. Thailand's SEC has drafted a framework for corporate governance ratings aimed at protecting shareholders' rights, the quality of directors and the efficiency of internal controls. The Thai SEC will offer highly rated

firms bunch of incentives, including a fast-track review of their corporate filings to issue new shares.

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Russia

Russia's Federal Commission for Securities Markets introduced new code of corporate governance which includes a number of tax incentives and investor friendly regulations.

Hong Kong

Hong Kong's SFC proposed a rule that executives who intentionally or recklessly, provide false or misleading information in public disclosures, shall face up to two years in prison and a HKD 1 million fine.

Philippines

Philippines SEC has requested that all listed firms establish an evaluation system to track performance of their boards and executive management. The recently approved code of corporate governance recommends that all public entities and fund raising entities shall adopt the same. Philippines' SEC is likely to extend new corporate governance code to require even non-listed firms to place at least one independent director on the board.

1.12 CORPORATE SOCIAL RESPONSIBILITY

It can be said with confidence that business isn't what it used to be. It is changing radically as a result of major societal forces such as technological advances, globalization etc. Business depends upon society for the inputs like manpower, resources, money etc. The very existence, survival and growth of any firm depend upon its acceptance by society and its environment. Business organizations have to earn social sanctions without which they will collapse and die out simultaneously as they exercise a remarkable influence on our socio-economic life style, they must understand their responsiveness towards society.

In this modern era, society is expecting much more from business than in the past. Business firms are now no longer considered as economic institutions, they are now socio-economic institution where basic reason to exist is not merely earning profit. Though profit making is the basic objective of any business and without it, it wouldn't survive, but the concept of profitability has been changed. Now profit in terms of goodwill creditability and trust of society is more valuable than profit in terms of money or return on investments. The image of a company depends upon service and satisfaction of the people. The long-term survival of a company

is possible when a company does what is favorable to the society and in the interest of the customers it serves.

1.13 WHY BUSINESS SHOULD BE SOCIALLY RESPONSIBLE

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A common question regarding why businessmen should be socially responsible! What visible or invisible benefits they will enjoy being socially responsible? What differences they will generate with when who are socially irresponsible? Some genuine reasons are as follows:

- ***Long-term survival:*** If an organization wants to survive in the long-run, it has to establish a loyal brand of customers, repeat customers etc. Suppose if they do harm to the society by their irresponsible conducts, society will not allow them to exit in the future.
- ***Public expectation:*** General public requires certain behavior from organization apart from quality products, fair prices, good services etc. While doing the businesses they should not disturb any balance of society like (pollution, crimes, corruption etc.)
- ***Goodwill:*** As we know that goodwill cannot be begged or borrowed, it can be earned and it will happen when the organizations first understand and discharge their social responsibilities.
- ***Government laws and regulations:*** Sometimes the government laws and regulations force the business organization to behave in socially responsible manner to survive in long run.
- ***Better environment to operate:*** If an organization can improve the quality of life of customers, try to integrate private good and public good, more concentration on solving a particular problem of the society, automatically better it is able to solve its own problem and better environment it will get to operate.
- ***Keep the balance (Give and take relationship):*** Business organization exists and operates with in society. As it takes so much from society, so it also owes something to the society. When businessmen understand the fact that they are social entities, without society's approval they wouldn't exist, they accept their responsibilities towards society and attempt to fulfill them.

1.14 SOCIAL RESPONSIBILITIES MODELS

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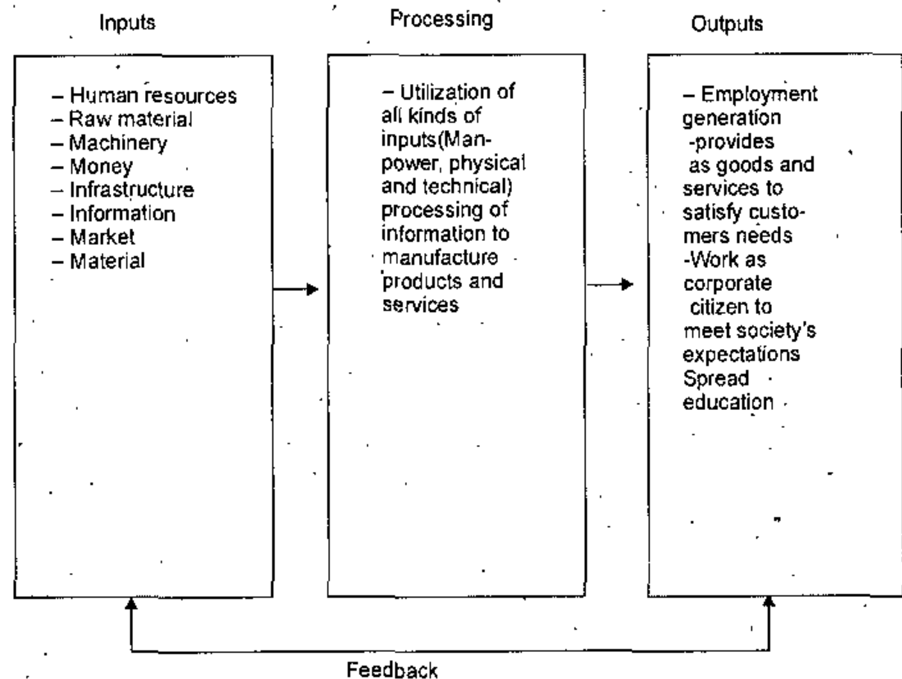
The interlinkages of business and society by system approach.

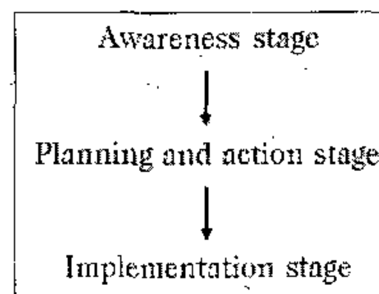


As from above representation it is clear that business is part of larger social system. Any business takes inputs from society, does it's processing and provides the outputs to the same society. So the outputs must be acceptable as well as desirable to the society. So the mutual understanding and interactions between society and business must be very sound. The contribution which business makes to society and vis-à-vis is very significant. So if the outputs of the processing are not up to the satisfaction level of society, some preplanning must be done till the desired results are accomplished.

So we say business is not considered economic institution and should be considered as a social institution. To understand social responsibility technically some models have been developed by some great man. Some of which are presented as follows to make us understand each and every aspect of social responsibility.

Ackerman's Model of Social Responsibility

Ackerman insists and suggest that the basic goal of any corporate entity should be social responsiveness. When firm decides to be social responsible it has to pass some developing stages like:



In the beginning of the process the top managers and decision makers must learn of an existing social problem. The key players generally are MD or CEO of the company.

Once identification about the existing situation is over proper and adequate planning should be done for this, it requires the firm must hire some specialist or consultant so there would be no loopholes in the planning stage. The most effective stage is to implement all the planning. Implementation should be of such kind that it would become an integral part of daily operations. A true commitment through out all the levels of organizations must be obtained.

Carroll's Model of Social Responsibility

According to Carroll, there are four categories of social responsibilities of business:

(a) ***Economic responsibilities:*** The basic and primary responsibility of any business is to be economic. Producing goods and services to satisfy society's needs and wants and generate profit by selling them.

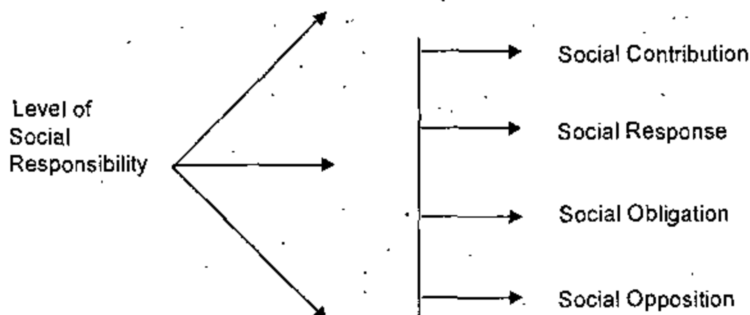
(b) ***Legal responsibilities:*** Each and every business entity must operate with in the law and legal framework; these are considered as legal responsibilities.

(c) ***Ethical responsibilities:*** As in the earlier chapter the difference between ethics and laws already explained so here being ethical responsible means doing according to the expectations of society might be not codified in a law.

(d) ***Discretionary responsibilities:*** Discretionary responsibilities are steps forward of ethical responsibilities, in which firms go for voluntary actions to serve society. Society will not demand to be discretionary responsive, it is the firm's willingness to contribute something in the welfareness of society.

Approaches to Social Responsibility

'Gene Burton and Manab Thakur' (Management today) have provided some social responsibilities strategies, which explained a ladder of degree of social responsibility.



- ***Social opposition:*** When businesses opposing the society by feeling or showing no obligations towards it, it is called social opposition. If while doing any unethical act they are being caught, they make themselves safe by denying it or some other practices like bribery.
- ***Social obligation:*** The firms in this category believe that as they are operating in society so it is their duty to do business in the legal boundaries.
- ***Social response:*** The firms in this degree do little more than social obligations. They realize that merely fulfilling legal requirements are not sufficient right now. So they go beyond, towards ethically conduct of business.
- ***Social contribution:*** The firms that contribute themselves to social development fall in this category. It is the top most step on the ladder of socially responsiveness. They do their business via fully dedication and committed to society.

1.15 CORPORATE SOCIAL REPORTING

Though the list of social responsibilities should be discharged by business organizations is a long one yet some major responsibilities, which cover all the basic parts are as follows:

Responsibility to make profit: The basic objective of any business should to earn profit. As a loss making organization cannot produce quality products, cannot fulfill its commitments, cannot generate revenue for shareholders etc. So, organizations have a social responsibility to be profitable, and then only it will be able to meet its social obligations and expectation.

Responsibility to generate employment: Every business must provide fair opportunities to all the people. They must create the conditions and situations which help the employees to put forwards their best efforts to achieve organizations goals.

Responsibility of optimum utilization of resources: Each organization must understand that it has some moral obligations to utilize the scarce national resources of the country in an optimum way, not to waste, damage or mis-utilize of the resources.

Responsibility to provide quality products: Providing quality products at fair prices is one of the important social responsibilities. If the service given by the product meets with the customer expectations and also they find products are available at fair prices, they will feel satisfied.

Responsibility to protect the environment: Protection of the environment is equally important as other responsibilities. Business organizations

are the responsible corporate citizens so they must take serious and responsible steps to protect the environment and keep it in a healthy condition.

Responsibility to provide quality of life: *Quality of life is one's* internal growth, growth of character, mind and soul and enriched life. So business firms should provide opportunities to its employees as well as to society to enrich their lives and better quality of life.

Responsibility to safeguard the health: Safeguard the health and physical safety of consumers as well as employees become as vital area to be cared by the organizations. This becomes more serious with drug and cosmetic companies. They must take adequate care to check and safeguard consumer's health and well being.

Fair trade practices: If business firms are showing socially responsible behavior they must go for fair trade practices some of which like—not making *false advertisements, avoid monopolistic* trade practices, not go for artificial scarcity, not bribing public servants, quality products, fair prices, provide *timely and accurate information to its stakeholders* etc.

Responsibility to development of nation: If companies are involved in international businesses, they must contribute their effort towards development of their country by earning foreign currency, earning goodwill and reputation in global market, make good relationship among nations etc.

Responsibility to fulfill all duties and national obligation: As corporate citizen, business firms are required to fulfill certain obligations *under various* laws and to perform certain duties. They must operate their business within the boundaries of legal framework provided by *government they must contribute* to national prosperity and try to reduce some national problems like corruption, unemployment etc.

1.16 CORPORATE DISCLOSER AND INVESTORS PROTECTION IN INDIA

Corporate social responsibility activities and programes are now quite *an integral part* of organizational objectives. In the last 14 years since liberalization Indian companies have come to terms with CSR and its wider *ramification.*

Whether we talk about private sector or public sector most of all have accepted social responsibility of business as part and parcel of their economic activities. Some of the PSU (Public Sector Undertakings) have been more active in the field of CSR. OIL (Oil India Ltd.) is one company among them. It is an Indian oil drilling company which is

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associated with community and society development, by providing low-cost housing, building Schools and Colleges offering monetary help to financially weaker students etc. NTPC (National Thermal Power Corporation) is the first PSU in the country to have developed a comprehensive R & R policy, while even the Government of India has been still working on a national policy. It's also one of the rare Indian organizations to have a clearly articulated corporate social responsibility policy. The main CSR policies of NTPC are:

- To lead the sector in the areas of resettlement and rehabilitation and environment protection including effective ash-utilization, peripheral development and energy conservation practices.
- To continuously attract and develop competent and committed human resources to match standards.
- 0.5% of its profits are set aside for community development measures under the umbrella of CSR.
- To contribute to sustainable power development by discharging CSR.

Indian private companies are also showing their brilliant efforts in CSR activities. We start with TATA group of companies whose belief is shaping a society with social purposes, Jamshedji TATA, the founder of TATA group and his sons believed that the real purpose of industry was to go beyond the creation of wealth to the building of a new society through the proper allocation of that wealth. It was from this vision TATA Institute of Social Science was born. JRD TATA conducted his business in a very socially responsible way. He wanted to bring an industrial revolution to an economically backward India. The very specific goals of JRD TATA at that time were to establish a hydroelectric power project at Bombay as a cheap source of energy, the steel industry at Jamshedpur and Indian Institute of Science at Bangalore to provide technical education.

SUMMARY

- The scope and extent of corporate governance are set by the legal, financial and business framework.
- The Board of Directors are responsible for the governance of their enterprises, in a given economic, political and social environment.
- **To initiate and determine:** A board can delineate an organisation's mission and specify strategic options to its management.
- The directing function of the board has internal and external components.

- **Audit committee:** It consists of independent directors who report to the board.
- The very existence, survival and growth of any firm depend upon its acceptance by society and its environment.
- The image of a company depends upon service and satisfaction of the people.
- General public requires certain behavior from organization apart from quality products, fair prices, good services etc.
- Discretionary responsibilities are steps forward of ethical responsibilities.
- As corporate citizen, business firms are required to fulfill certain obligations under various laws and to perform certain duties.
- Indian private companies are also showing their brilliant efforts in CSR activities.

REVIEW QUESTIONS

1. Discuss the legal and managerial roles of BoDs.
2. Discuss the reports of Committees on Corporate governance.
3. What are the different Government Initiatives regarding corporate?
4. Why business must be socially responsible? Explain.
5. Define and explain the term corporate social responsibility.
6. Explain the various social responsibility models.
7. What are the major areas in which a firm should be socially responsible?
8. Comment on some socially responsible Indian companies and their activities.
9. Discuss 'whether social responsibility of business' a fair practice or a game for frame.

FURTHER READINGS

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UNIT 2 INDIAN ETHOS, VALUES AND MANAGEMENT

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STRUCTURE

2.0 Learning Objectives
2.1 Introduction
2.2 Indian Value System and Values
2.3 Value Impacts in Business in India
2.4 Indian Ethos for Management by Scriptures and Traditions
2.5 Ramayana and Mahabharata for the Business World
2.6 Corporate Governance Perspectives
2.7 Roles of Corporate Governance
2.8 Western Concept of Corporate Governance
2.9 Islamic Corporate Governance Model
- *Summary*
- *Review Questions*
- *Further Readings*

2.0 LEARNING OBJECTIVES

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

- describe Indian value system.
- know about the value imparts in business in India.
- explain Indian ethos for management by scriptures and traditions.
- discuss Ramayana and Mahabharata for the business world.
- know roles of corporate governance.
- describe western and Islamic concept of corporate governance.

2.1 INTRODUCTION

"Certainly we should take care not to make *intellect* our God. Intellect has, of course, powerful muscles but no personality. It cannot lead. It can only serve. It is not fastidious about its choice of leaders (Mind or Soul). The intellect has a sharp eye for tools and methods but is blind to *Ends* and *Values*". **–Albert Einstein**

"It is already becoming clear that a chapter which had a *western* beginning in business management will have to have an Indian ending, when the world adopts rich thoughts of Indian ethos and wisdom, if it is not to end in the self-destruction of the human race".

–Arnold Toynbee, Nobel Laureate

2.2 INDIAN VALUE SYSTEM AND VALUES

Cambridge Advanced Learner's Dictionary defines Ethos as "The set of beliefs, ideas, etc., about social behaviour and relationship of a person or group" while Oxford Advanced Learner's Dictionary defines it as "The moral ideas and attitudes that belong to a particular group or society". Indian Ethos is all about what can be termed as "national ethos". Formally, the body of knowledge which derives its solutions from the rich and huge Indian system of ethics (moral philosophy) is known as Indian Ethos in Management (IEM). Is IEM some kind of Hindu concept of management? Certainly not. Management is behavioral science and it has to be culture specific. IEM has as its basis, the culture base of India and as a country whose culture has its roots in religion—it does draw its lessons from the religions of the land—be it Hinduism, Buddhism, or any other. The salient ideas and thoughts of Indian Ethos in Management revealed by our ancient scriptures are:

1. *Atmano Mokshartham, Jagat hitaya cha*: All work is an opportunity for doing good to the world and thus gaining materially and spiritually in our lives.
2. *Archet dana manabhyam*: Worship people not only with material things but also by showing respect to their enterprising divinity within.
3. *Atmana Vindyate Viryam*: Strength and inspiration for excelling in work comes from the Divine, God within, through prayer, spiritual readings and unselfish work.
4. *Yogah karmashu Kaushalam, Samatvam yoga uchyate*: He who works with calm and even mind achieves the most.

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5. *Yadishi bhavana yasya siddhi bhavati tadrishi*: As we think, so we succeed, so we become. Attention to means ensures the end.

6. *Parasparam bhavayantah shreyah param bhavapsyathah*: By mutual cooperation, respect and fellow feeling, all of us enjoy the highest good both material and spiritual.

7. *Tesham sukhm tesham shanti shaswati*: Infinite happiness and infinite peace come to them who see the Divine in all beings.

8. *Paraspar Devo Bhav*: Regard the other person as a divine being. All of us have the same consciousness though our packages and containers are different.

2.3 VALUE IMPACTS IN BUSINESS IN INDIA

1. Immense potential, energy and talents for perfection as human being has the spirit within his heart.
2. Holistic approach indicating unity between the Divine (The Divine means perfection in knowledge, wisdom and power), individual self and the universe.
3. Subtle, intangible subject and gross tangible objects are equally important. One must develop one's Third Eye, *Jnana Chaksu*, the Eye of Wisdom, Vision, Insight and Foresight. Inner resources are much more powerful than outer resources. Divine virtues are inner resources. Capital, materials and plant and machinery are outer resources.
4. *Karma Yoga* (selfless work) offers double benefits, private benefit in the form of self purification and public benefit.
5. *Yogah Karmasu Kaushalam* - Excellence at work through self-motivation and selfdevelopment with devotion and without attachment.
6. Co-operation is a powerful instrument for team work and success in any enterprise involving collective work.

Items	Management (Oriented by Science and Technology, Western Approach)	Management (Oriented by Values and adopting holistic approach, Indian and Eastern)
Belief	Production, Productivity, Profit at any cost	Material gain with belief in achieving human and social welfare in unison
Guidance	Management guided by mind only, led away by ego and desire. Soulless management	Management by consciousness, power beyond mind i.e., soul. Interiorized management
Emphasis	Worker development, management	Development of man, integrated

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	of others, profit maximization, human being only given lip sympathy	growth harmony, happiness and health, management of self
Tools	5 Ms as Resources – Men, money, materials, machines and markets. Science and Technology, information for decision making	Men, machines, materials and methods as conscious partners– all having consciousness whether Manifested or dormant. Information and intuition for decisions. Ethics and values combined with skills
Problem solving	Conflict resolution by negotiation, compromise, arbitration. Liquidation of differences only for a temporary period. No reference to higher consciousness	Conflicts resolution through integration and synthesis on stressing super ordinate common goals so that enduring harmony and unity is assured. Self introspection, stepping back aids for solution
Decision making	Brain storming	Brain stilling
Development process	Physical, Vital and Mental only. Soul or spirit ignored. Material development only even at the cost of man and nature.	Integrated development. Whole man approach, breath-control and meditation emphasized. Human enrichment and total quality.
Approach	External behaviour. Mental, material, selfish-only.	Noble attitudes, inner guidance, team spirit total harmony, global good.

Principles of IEM are universally applicable. IEM can help develop an effective and holistic management pattern which will assure all round growth in productivity, marketing and profitability. This will help in synchronizing private and public benefits and encourage individuals to lead an enriched quality of life together with worldly achievements. The best form of management has to be holistic and value driven which is the objective of IEM.

Indian ethos demands a *subjective* management system which leads to an understanding of the following:

(a) **Management attitude** – Top management having firm belief in value-oriented holistic management. Profit is earned through service and satisfaction of all stakeholders – employees, customers, shareholders and citizens. Fulfillment of social responsibility must be ensured.

(b) **Humanising the organisation** – Looking at the three aspects of humane organisations, *i.e.,* inter-personal relations, man-machine equation where man is the prime concern and inner management through mental and spiritual growth of individuals.

(c) **Interiorising management** – Self-management or management by consciousness. When the *soul* manages the other four members of the human being, namely, the body, mind, intellect and the heart, the conflict these four have amongst themselves can be

resolved. This is management by consciousness. The objective of self management is to first know and manage oneself and then manage others.

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(d) **Self-introspection** – Embark upon self-study, self-analysis and self-criticism to locate areas of friction and disharmony, a self examination of one's own thoughts, feelings, emotions, sensations and passions and a desire to reduce and subdue the ego.

(e) **Brain-stilling** – For rational and enduring decisions, silent mind is a necessity. A perfect *Mounum* (calm mind enjoying tranquility) is necessary. Brain-stilling or meditative silence is the most reliable method to discover solutions to problems and difficulties which seem to be difficult to be tackled by reason and intellect because through this one can come into contact with the inner mind or higher consciousness called *Chetana*.

(f) **Stepping back (for a while)** – Never decide anything, never speak a word, never throw yourself into action without stepping-back. The stepping back from a situation for a while enables one to control and master a situation.

(g) **Self-dynamising meditation** – A dynamic meditation is meditation of transformation of lower consciousness into higher consciousness and hence is called *transforming meditation*. Through meditation, in a silent and calm mind, one reaches a higher level of consciousness which offers guidance in the form of intuitions to tackle a multitude of problems. This is called *consciousness approach* to management.

(h) **Role of intuition** – Intuition is the act of coming to direct knowledge or certainty without reasoning or inferring. It is immediate cognition by the inner mind and when fully developed, is efficient and effective for taking prompt and sound decisions. Intuition skills enable one to cope with confidence the fluctuating environment and rapid changes. *Faith* is a prerequisite to develop and realize the power of intuition.

2.4 INDIAN ETHOS FOR MANAGEMENT BY SCRIPTURES AND TRADITIONS

The Indian ethos is the outcome of the Hindu way of life. Indian ethos means application of principles of managing an organization revealed in our ancient wisdom described in Gita and Upanishads.

Indian ethos would certainly help the future as well as existing organizations to tackle the changes and canalizing it for their development. The Indian

ethos will prove to be of immense help as well as practical use to the managers in an organization.

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Features of Indian Ethos

Following are the essential features of Indian ethos and insight:

1. Indian ethos focuses on the existence of human being as a truth. There is nothing perfect other than the supreme soul.
2. Indian ethos focuses on, "If you are good then the whole world is good".
3. Indian ethos are principle derived from the Upanishads, Bhagwad Gita and Purans.
4. According to Indian ethos, there must be balance between spiritual values and secular values so that even a rich person can lead a life of materialism and spirituality.
5. The Indian ethos gives greater emphasis on values and ethics. Knowledge is not power. Character is the real power and health.
6. Indian ethos emphasizes on inner resources. Inner resources are much more powerful than outer resources.
7. According to Indian ethos, total quality management can be assured through excellence at work through self motivation and self development.

The following are some of the Indian Ethos relevant to management that can improve work culture in organization:

1. All work is an opportunity for doing well to the world and thus gaining materially and spiritually in our work.
2. One who works with calm and even mend achieves most.
3. As we think, so we succeed, so we become.
4. Strength and cooperation for excelling in work comes from divine.
5. All will enjoy the highest good by mutual cooperation and respect.

Elements of Indian Ethos

Indians are the products of Indian Ethos. Indian management methods are bound to work in India. Indian Ethos is better than other ethos present in other countries. Indians believe:

1. Ego sublimation rather than ego assertion.
2. Sacrificing spirit rather than fighting spirit.
3. Team achievement rather than individual achievement.
4. Spiritual attainment rather than material prosperity.

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5. Self control rather than outside control.
6. Concept of duties rather than concept of rights.
7. Yielding rather than dominating.
8. Concern for this age world and improvement.
9. Respect for and search for all truth whatever be its source.

Need for Indian Ethos for Business

We need Indian ethos in our management for the following reasons:

1. To develop proper management system in the organization. Management systems based on principles as per ancient wisdom are of immense help for the smooth conduct of business. Value- oriented management system can be established with the help of Indian ethos.
2. To ensure all round development, growth and prosperity *i.e., productivity, marketing and profitability.*
3. Indian ethos teaches us that if you work sincerely for the society, for your organization and for the Nature, you will really enjoy your life through money harmony, peace and bliss. Your image is bright.
4. Indian wisdom indicates that productivity of human being is more important than plant capacity.

Application of Indian Ethos

The applications of Indian ethos are as follows:

1. **Attitude of the management:** This refers to the attitude of top management towards ethics and values. Top management must have belief in value-oriented holistic management of business. The management must fulfill expectations of all stakeholders.
2. **Self management:** The manager should first learn to manage and control himself. Manager cannot control and manage others without self exercising self management.
3. **Meditation:** Meditation helps to solve many complex problems of management and organization demanding higher consciousness. A dynamic meditation is a process of transforming of lower consciousness into higher consciousness.

   The Indian Ethos emphasizes on the concept like sacrificing individual desires in favour of social benefits, preferring long term benefits over short term gains.

2.5 RAMAYANA AND MAHABHARATA FOR THE BUSINESS WORLD

God is great and bountiful. He gives us life, energy and resources to enjoy and share. According to the Hindu Mythology, He has also given us books on wisdom and knowledge in the form of four Vedas and Upanishads. But somewhere down the line, in the mad race of becoming modern, we Indians began aping the west in all spheres of life though we continue to do so), we keep committing the same mistakes as the west and do not learn from them.

Slowly and gradually we are reverting to our old and rich cultural heritage as well as the teachings, which can be applied universally to different arenas including administration. The American style of business management is more or less dependent on empirical studies, scientific approaches and mathematical derivations. The Japanese form of management is based on the art form of management whereas the Indian style is based on wisdom and knowledge. The Indian form concentrates more on the content (knowledge) rather than on the 'form' or outward appearance. The Indian businesses must be run through citations and practices mentioned in Indian culture.

Though both epics have grandeur and scale, the Ramayana is a much more focused story with fewer characters. It is the Mahabharata that is the real colossus. The Ramayana is about a much-revered God while Mahabharta is not, even though it has Krishna and the Bhagwad Gita. Krishna is more a strategist and a king, a friend and an advisor to the Pandavas. The Krishna people worship is the playful Gokul Cowherd, the slayer of Kansa, the boy who performed miracles in His Childhood. It is a deeply complex and intricately layered with sub-plots.

However, both of these epics are hard wired into our collective psyche. They both are classics that serve every age with knowledge, wisdom and truth. It is said of Mahabharat that whatever is not in it, does not exist in this world. The pace, grandeur, inscrutable genius of construction, its range and variety, its darkness and its heart – The Gita brings a great learning not only to individuals but also to the corporate world. The eklavya and Amba are blessed with extraordinary gifts in their lives. The Ramayana is more linear – Ramah is an ideal son, brother, husband and the king.

In recent years, the Western management education and training citadels such as Harvard, Kellogg, Wharton and several others have experienced persistent failure of their modern management technology to inspire executive trainees and students to stay perpetually motivated in the face of growing challenges posed by economic liberalization and globalization trends sweeping across the world.

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Hence, modern management minds are looking for solutions beyond the reservoir of Western management thoughts and practices. They have examined and experimented with the Japanese and Chinese systems of management. Of late, their focus has shifted to Indian philosophy to find solutions to reoccurring irritants in efficient management practices. As a step in this direction, Western management executives, particularly in USA, are being cajoled to put purpose before self during retraining sessions at institutions of management learning. It is Ved Vyasa's Bhagavad Gita through which they are attempting to enrich themselves with the supremacy of action. They are trying to enrich matter with forces of spirituality, realizing that the principle of Karma has invaluable merits. When the Harvard Business Review (HBR) came out with a survey of 188 MNCs worldwide, in one of its recent editions, on personal capabilities that contribute in the making of a successful leader, conducted by Goldman, it was found that leaders by their very nature are of six types:

- **Coercive**—meaning ones who compel team members to follow their decisions
- **Authoritative**—the 'come with me' type;
- **Affiliating**—ones who work through close association;
- **Democratic**—those who believe in building consensus;
- **Pace-Setting**—the 'I will jump and you will follow' type; and
- **Coaching**—the ones who believe in mentoring.

The survey found out that with regards to the faculties that go towards making a successful leader, there are three primary skills, which are laid emphasis on:

- Technical skills,
- Cognitive and Analytical skills, and
- Emotional Intelligence (EI).

In their interactions with hundreds of leaders worldwide, the surveyors found EI to be twice as important as the other two attributes. In fact, the importance of EI, which is an embodiment of motivation, empathy, and social skills, increases as one, goes up the management chain. There are three components in management — the analytical (head), the emotional (heart) and the spiritual (soul). But, management education completely ignores emotional intelligence (EI) and focuses only on analytical intelligence. EI is experience-driven. Life skills like creative thinking, listening, mentoring, working under pressure, empathy, team building come from EI which can be easily learnt from the great epics.

Tutorials from Lord Rama

It is in the importance of EI that a similarity with Ramayana can be recognized. In the mythical Ramayana, the battle leading to the climax was being played out. Vibhishan, Ravana's brother who had defected to Ram's side was unable to contain his concerns about defeating the huge army with limited resources. The reply that Rama gave stands out as a great lesson in leadership, more on the role and importance of EI as one can ever come across. He clarified that one has to have a clear vision and a cause worth fighting for. In the case of Ramayana, the cause was to rescue his beloved Sita and the vision was to defeat the evil forces.

Many prominent industry leaders today opine that one need not necessarily have a vision, rather, taking one step at a time could be a much more practical way of going about, but unless one has a vision, one will never be able to follow a trajectory. In the words of the great Mohandas Karamchand Gandhi, "The world steps aside to a person who knows where he or she is going." Ramah narrated to Vibhishan, that the four wheels of the chariot are character, courage, ethics, and valor. Character is the most fundamental thing for a leader. As a leader, one must know oneself and what one stands for. The same thought must be communicated to the kins and employees through actions rather than words. It is essential for a leader to walk the talk; leadership doesn't come from a business card, or does respect.

It is the ethics, the value system one portrays that does the needful. Courage in this scenario would be the ability to take unpopular decisions, while valor is the courage to defend those very decisions. In the event of an unpopular decision, and such decisions are a part and parcel of a leader's life since leadership begins where logic ends, it surely gets lonely on the top of the hill, but one must show the valor, walk the talk, and teammates are sure to follow. Rama enumerated what the horses drawing the chariot stood for— strength, energy, and passion. In a battle (today's fierce competition) one must have the strength to discriminate between the right and wrong, and the zeal and perseverance to keep working towards the desired goal. The four reins of a horse are forgiveness, compassion, consistency, and equanimity. It is essential to touch the hearts before one asks for the hand. Touching heart needs compassion and forgiveness. Consistency and equanimity are hallmark of character which creates trust with the followers. The chariot's wheels, the horses, and their reins are among the most important of a warrior's (and therefore a leader's) repertoire.

Knowledge, strategy, intelligence, skills, commitment, and a restraint of ego are the weapons that will help in winning any mammoth battle. The way the Ramayana portrays the essential attributes of a leader is

a revelation. Many of today's thinkers analyze too much and thus lose the charm of simplicity. One need not analyze and complicate things. What the HBR survey and the statement of Rama in the Ramayana say are one and the same, that EI, an embodiment of all the aforesaid things is what makes victory possible against any opposition.

It can be questioned as to how one person can possess all these qualities. Well, one need not master all of them. No great leader has been exceptional in all of them. They, like each one of us, are strong in a few of the attributes, which provides core strength to their leadership. One needs to be consistent in their approaches to different people, no matter who they are and where they are coming from. Leadership calls for consistency, one of the reins of the horse, as the Ramayana so beautifully enumerates. Leaders might be doing 200 things, from inspiring to coaching to strategizing but nothing will be accounted for if results are not produced. The best way to produce results is the ability to motivate self and inspire the team to achieve the goals.

For example, teamwork is an important principle in management, and Rama applied the same in search of Sita and was successful in the mission. Another one is in an organisation one must be treated affectionately which Rama did when he met Guhan and Vibhishana. Management principles such as encouraging lower category of employees, rewards for good work, self-motivation, decision-making, recognition, market survey, market exploitation, time management and the art of communication are aligned with instances in the epic.

Tutorials from Mahabharata

Krishna was a great leader because he was a problem solver, pragmatic, good judge of men, led by example, delegated to qualified people, let people make mistakes so that they could learn from their mistakes and always kept the big picture in mind. Draupadi was the epitome of feminine will and selfrespect who challenged injustice, held her ground in difficult circumstances, was optimistic, egalitarian in her approach to men and women, was a confidante and a counselor, sensitive interpreter of people's nonverbal communication, identified the right person for the right job and most importantly blended passion/emotion with reason to energize her kinsmen, her husbands and her family.

Three great works enumerate Krishna's teachings: The Bhagwad Gita, the Anugita and the Udhavgita. While the first two are a part of the Mahabharata, the last is cited in the Bhagvata. The Mahabharata is not about good and evil; instead, it teaches that life is grey. Defining the grey is not easy because it is deeply rooted to the context. The great Indian epic can be used to compare each of the Pandavas to managers of today with their roles, strengths, weaknesses and consequences. According to

Ramnath Narayanaswamy, professor at IIM-B management students are looking at Krishna as the CEO, Yudhishtir who binds together values, Bhima (outcomes), Arjun (learning), Karna (legitimacy), Nakul (process) and Shadev (purpose). The Ramayana and Mahabharata are outstanding texts for all times and can be contemporized to any age.

The Pandavas, Karna included, are each a great hero with a fatal flaw. Yudhishtir is the mentor whose strengths are his values and beliefs. He stands for propriety but he is blinded by his code of honor. Similarly, Bhima is an 'executor' manager. For him, the outcome is supremely important, the bottom line matters — his weakness is he can be blinded by rage.

Nakul is the enabler — the service hero of today. He's driven by process, but there's no active leadership. Sahadeva is the visionary, but he is like the manager who stands for thought and no action. Karna's strength is personal loyalty; it also brings about his doom. He's like the manager of today who'd buy vegetables for his boss's stands for flawless perfection. His strength is that he is assailed by doubt, but he is willing to learn. Today's young managers are Arjuns, in search of their own heroism — they want to discover their own meaning in life. Isolate the insides of religious traditions and contemporize them in a managerial situation.

Dronacarya has a personality with highly developed primary leadership ability for Strategic Leadership, and also a very strong secondary ability as a Directive Leader. On a leadership team the Strategic Leaders provide vision aligned with eternal principles, and the Directive Leaders provide direction, aligning the people with the vision. The Team-building Leaders generate cohesion and keep the group together, and Operational Leaders provide leadership in the area of implementation. All types of leaders play vital roles. Some people will have ability in multiple areas; others will have ability focused in one area. Duryodhana thought about being victorious not because of the equipments or technology, not the strategic plan, not even his own ability but his people. Getting the right people is fundamental. Both Duryodhana and Arjuna spent a lot of time and energy recruiting for this battle. Sun Tzu, in his classic treatise the Art of War states leadership as one of the five essential factors that determine ultimate victory. Vikarna is mentioned here amongst the other big names of Duryodhana's leadership team not because he is of the same caliber as the others, but because his loyalty was in question.

As injustices had been meted out by Duryodhana on the Pandavas, Vikarna was the lone speaker in protest against Duryodhana's actions. Vikarna, however, changes sides just before the battle, when the opportunity is given to do so. Duryodhana's force is numerically superior and seems more likely to prevail in this final battle in a war. Vikarna, however,

is loyal to a higher cause than his own self aggrandizement or even self preservation, and must do what he understands to be right. This is a hallmark of an authentic leader. When communication is fluid within an organization there can be a high level of shared vision and shared situational awareness. The natural tendency of leaders is to initiate action. If strategic vision is not shared across an organization the tendency will be for leaders to initiate action which doesn't necessarily contribute to the overall goals or momentum of the organization. In the case of Duryodhana he is confident that his people will do what is necessary.

Effective leadership follows principles of practice which empower it to effect change. Authentic leadership follows principles of purpose which empower it to effect holistic positive change. Duryodhana was expert in applying the principles of practice, and as such he was able to amass a large force of capable, competent leaders. However, he had no interest in any purpose other than his own – the goal and direction of his leadership was not in accord with principles, therefore he was misleading these people. Leadership which follows principles in its form but deviates from or ignores universal principles in its function is actually little more than manipulation.

Krishna had vowed not to fight in the battle, but to join one side of the conflict. His army, however, would fight on the other side. Duryodhana elected Krishna's army, and Arjuna chose to have Krishna on his side. The inner meaning of His appearing on the side of the Pandavas, which was substantially weaker in strength than Duryodhana's side, is that leadership which is lacking in effectiveness, in efficacy due to a lack of understanding of the principles of practice is preferred to leadership which is lacking in alignment with the principles of purpose. It is better to be going in the right direction at 5 miles an hour, than off a cliff at 100. Even the ability to mix and match colors is a type of intelligence. Different people have different mixtures of intelligence, and how they elect to use these talents is up to them. Duryodhana had a large degree of talent and intelligence, but he chose to utilize them for his own selfish needs. He did not care about anything more than seizing the throne for himself.

Ancient wisdom is thought of integrating knowledge and action. In the modern context, there are too many excellent policy documents but too little actual implementation on the ground. Vivekananda had said that knowledge without action has no value and action without knowledge is futile. To integrate thought and action there has to be responsibility, accountability and performance-linked incentive. The corporate world has to move away from the existing mindset. They have to build internal strengths rather than eliminate competition through unfair means. Sadly, the current ruling mantra is not to lead but to defend. Companies which

have led more often are today amongst the world's best companies. Business is about meeting market demand by having the capability, capital and connections (3Cs) to sustain cash flow for the generation of profit. These 3Cs are cardinal features for an aptitude towards competition. However, business thrives on truth and integrity, and more importantly the attitude towards customers, stakeholders, and society-to maintain mutual trust and the management of expectations.

Development for aptitude is usually evidence-based and profitcentric. Cultivation of attitude is experience-based and purpose-centric. Today, there are many professional specialisations in many aspects of management, for example, human resources, real estate, and wealth. However, there is still limited research on the essence of management. Analysis by Henri Fayol divided management into five elements: plan, organise, command, coordinate, and control. According to Peter Drucker, a manager does his work by getting other people to do theirs.

So, business management would include communication and commitment, in addition to the 3Cs. Together, these 5Cs would encapsulate the essence of business management. Debate continues on whether a manager needs to be leader in order to be efficient or effective, including the balance between IQ (intelligence quotient) and EQ (emotional quotient). But ultimately, all endeavours should prepare a manager for decision-making and implementation whenever a business opportunity strikes to bridge the gap between profit-centric and purpose-centric management.

In the Gita, Krishna represents the embodiment of Vishnu. This guide is more to awaken than to instruct. Since every physical form is the result of an inside tension, the human person enjoys an outward personality (extrovert, introvert) while restraining the ego (pride, dignity, lust) by managing the characteristics of the self. These comprise goodness that brings happiness,harmony and the passion to ignite action and get rid of ignorance which may lead to delusion or confusion. They individually and jointly influence the psychophysical condition of a person. Sanctification of daily work is by detachment from the fruits of labour, devotion to duty, and the discipline to persevere for wisdom. Common distortions to such efforts are the adherence to rituals like extravagant ceremonies, dogmas like mandatory routes of advancement for career development especially in business entertaining that distract the link to and disturb the acceptance of one's own essential nature. The attitude in business is reinforced by discipline, detachment, and devotion, the various categories of human effort denote capability. The rituals, dogmas and habits are gateways to connections, especially to competitors and supporters. Individual management is the most important capital and the orifice in communication is the humble acceptance of the presence of God. He skillfully sermonises that any duty done by people must be considered

as an offerring and service to Him. The level of commitment leading to better accountability will definitely rise. Commitment is through discipline, detachment and devotion. Hence, the 5Cs are contained in the Bhagavad Gita.

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The Pious Gita with Holy Learnings

One of the greatest contributions of India to the world is Holy *Gita*. It is truly regarded as being a song of the Spirit and the Lord. It has got all the management tactics to achieve the mental equilibrium and to overcome any crisis situation. *Bhagavad-Gita Gita* means. The Holy *Gita* has become a secret driving force behind the enfoldment of one's life. The Holy *Gita* is a practical psychology of transformation which offers us the tools to connect with our deepest intangible essence. We must learn to participate in the battle of life with right knowledge.

Management is a process of aligning people and getting them committed to work for a common goal to the maximum social benefit - in search of excellence. The critical question in all managers' minds is how to be effective in their job. The answer to this fundamental question is found in the *BhagavadGita*, which repeatedly proclaims that "you must try to manage yourself." The reason is that unless a manager reaches a level of excellence and effectiveness, he or she will be merely a face in the crowd.

The first third deals with karma yoga (ways of selfless action), the second vinana yoga (ways of self-knowledge), and the last with bhaktiyoga (ways of love, devotions). Yoga literally means "link". Meditation is the process, while yoga is the result. The preceding yogas aspire to link ordinary man with the divine. In mundane business, there are basically four types of managers that are not mutually exclusive. The first group believes in "doing things right" and resist change (conservatives). The second relishes change and believes in "doing the right things" (entrepreneurs).

The third group represents change and also gets others to do things that are perceived to be right (leaders). Lastly are those who complicate the issues about being "right" (politicians). However, all these managers would need to optimise their 5Cs for profitability and productivity.

However, the various models can help managers and companies have less haste and more speed in decision-making. Clarity of thought breeds confidence in action. Adherence to the Bhagavad Gita would also include an abundance attitude (win-win), always grateful and sincere towards business opportunities. From the Bhagavad Gita, the essence of management can be summarised as self-control focusing on discipline in perseverance, detachment from fruits of labour, and devotion to duty. The key components in business management are the 5Cs: capital, capability, connections, communication, and commitment.

Capital

Capital comprises basically money, men, machines, and methods. However, their optimal combination would be determined by a business motive. This is expressed in the business vision, mission and core values, and they would remain as mere words if not implemented with passion and compassion. Gita III:35 "Nothing is ever lost in following one's own dharma, but competition in another's dharma breeds fear and insecurity" (Easwaran, 1998). Therefore, realising one's own contribution towards the entire cluster/industry is vital in unifying/justifying one's existence. Core competencies, intellectual properties and niche expertise are intangible capital. The Gita further specifies, Gita 11:47 "You have the right to work, but never to the fruit of work" (Easwaran, 1998). Gita II:50 "When consciousness is unified, however, all vain anxiety is left behind. There is no cause for worry, whether things go well or ill" (Easwaran, 1998). So, managing and owning capital are forms of stewardship from the Gita perspective.

Capability

While capital is essential to service market demand, capability refers to the intrinsic qualities that contribute to competitive advantage. For example, fresh perspectives that do the same things better, faster, cheaper. These include outsourcing, corporate governance and corporate social responsibility. In Gita VI:5 "Reshape yourself through the power of your will, never let yourself be degraded by selfwill. The will is the only friend of the Self, and the will is the only enemy of the Self (Easwaran, 1998). Although change is an intraorganisational decision, it is more important that the new capabilities developed are linked to heritage while servicing new market demands. So, strive for links with business multipliers and network catalysts. Gita IV: 18 "The wise see that there is action in the midst of inaction and inaction in the midst of action. Their consciousness is unified, and every act is done with complete awareness" (Easwaran, 1998).

Gita FV:20 "The wise, ever satisfied, have abandoned all external supports. Their security is unaffected by the results of their action; even while acting, they really do nothing at all" (Easwaran, 1998).

Masterplans (for example, revolving long range planning) and scenario planning outline strategies to retain, replace or review essential capabilities that are vital for the business as an on-going entity.

Connections

While capital and capability provide for the supplyside, a business needs connections to capture its demand-side. These include feedforward

(market intelligence, feasibility studies) and feedback (reviews, audits). Gita XVII:23—27 mentions "OM, TAT, SAT" (Easwaran, 1998). OM being the sacred syllable that connects the known to the unknown; TAT refers to supreme reality beyond what human language or thought can describe; and SAT embodies all that is good in self-harmony. Likewise, specific jargon provides limited access to qualified members. Being connected means staying afloat on the same boat. More importantly, Gita XVIL28 refers to "ASAT" (Easwaran, 1998) as all work done without faith is nothing. So, sincerity is vital for all interconnectivities between deeds and needs. Truth prevails. A business needs to maintain a culture of integrity in order to sustain trust, inside and outside, thereby create a goodwill and gradually build up a strong reputation for self.

Communication

Besides sender and receiver (worthy or unworthy), communication within the Gita perspective is dependent on timing and circumstances, regardless of content and duration of the message. From the business perspective, data mining and market analyses help prepare impactful deliveries to targeted audiences. Very often, it is not what but how things have been said or packaged which determine responses.

Commitment

Another purpose-centric perspective is the commitment of managers and owners to the business as an on-going concern. From Gita 11:34 "... for a man of honour, dishonour is worse than death" (Easwaran, 1998). Sustaining a business is an honourable duty.

The Management Grid

Matters that are not urgent and not important can be delegated. However, transparency in the organisational structure is vital so as not to disrupt and distort the ordinary rhythm of business. For urgent but not important issues, appropriate parties could be empowered to act. However, they need to be abreast with the strategic intent of the business. Strategy is about aligning activities to create a unique and distinctive mix that cannot be easily and quickly emulated by competitors. Matters that are not urgent but important usually affect the business in the longterm requiring an extensive network of expertise. However, these need intimate understanding of local culture for optimal management. Tact and tolerance are vital in handling differences. In urgent and important matters, usually depicted in a crisis or chaos situation, leadership is necessary. There is a need to exhibit conscious control, although timely communication (feedforward, feedback) requires efficient coordination and effective co-operation of all parties involved.

Holistic Approach

While the management grid consolidates the business perspective by focusing on evidence-based, profitcentric approach, "Self Control" as promoted by the Bhagavad Gita completes the experienced-based, purpose-centric aspect of management capital can be delegated when there is a transparent structure in an organisation (for example, licensing, franchising). Capability can be empowered when the overall strategy is clear (for example, agencies, subcontractors, original equipment manufacturers). For connections, the expanded networking would today include blogs and portals with real time pushmails via Blackberry or similar technologies. The vital link between business and management is the leader. This person relies on communication to bond an enterprise together. From the wisdom of Bhagavad Gita, this process can in summary involve discipline, detachment and devotion, reinforcing the commitment to sustain an on-going concern for business.

2.6 CORPORATE GOVERNANCE PERSPECTIVES

Generally, the definition of corporate governance can be divided into two senses. Firstly, in narrower sense corporate governance can be defined as a formal system of accountability of senior management to the shareholders. Secondly, in expansive term, corporate governance includes the entire network of formal and informal relations involving the corporate sector and their consequences for society in general.

A concept of corporate governance from Islamic perspective does not differ much with the conventional definition as it refers to a system by which companies are directed and controlled with a purpose to meet the corporation's objective by protecting all the stakeholders' interest and right. Uniquely, in the context of corporate governance within the Islamic paradigm it presents distinct characteristics and features in comparison with the conventional system as it refers as a special case of a broader decision-making theory that uses the premise of Islamic socio-scientific epistemology which is premised on the divine oneness of God (Choudury and Hoque, 2004).

2.7 ROLES OF CORPORATE GOVERNANCE

If we refer to early academic discussion on corporate governance in the case of United States, it is found that the function of corporate governance is focused on the merits of conglomerate merger and the hostile takeover as mechanism for controlling agency costs (Macey and O'hara, 2004: 580). It evolves into other areas of the role of institutional investors as corporate

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monitor and to control managerial shirking and more generally to maximize shareholder's value. In the context of financial services sector, the apex objective of the corporate governance is to ensure fairness not only to shareholders but to stakeholders to be attained through greater transparency and accountability. This is in line with the statement made by Wolfensohn, (1999), former president of the Word bank where he views that corporate governance is about promoting corporate fairness, transparency and accountability. Scott, (2003:527) explains the objective functions of corporate governance system as a set of legal rules, incentives and behaviours that support the reliance by investors. The end goal of corporate governance then is to maximize the economic efficiency of the firm.

Choudhury and Hoque (2004: 59) views that *the objective functions of corporate governance in Islam is to define and attain an objective criterion by means of understanding the relations between critical variables supported by policies programs and strategic coalition. A clear and precise of the objective criterion leads to the determination of such policies, programs and strategies by means of institutional consensus and the exercise of proper instruments as required by the corporation.* These objective functions put *maqasid Shari'ah* as the ultimate goal of corporate governance. The corporate governance in Islam and Western plays very essential roles in order to meet the specific goals and objectives of the corporation. Islam adds further value by insisting the element of *Maqasid Shari'ah* which can not be found in the Western concept.

2.8 WESTERN CONCEPT OF CORPORATE GOVERNANCE

Becht and Barca (2001) and Lewis (2005: 5-29) provide literature review of a number of corporate governance models as possible solutions to solving the collective action problem among dispersed shareholders. The study however focuses only the main two dominant corporate governance systems namely the Anglo-Saxon or "neo liberal" approach and the European models.

Corporate governance issues arise in the corporation in two situations namely whenever there is an agency problem or conflict of interest involving members of the organization such as board of directors, managers and shareholders and cost of business are such that agency problem can not be dealt with through a normal contract (Hart, 1995: 678). The rationale of the existing corporate governance systems of the Anglo-Saxon, the European and other models are undeniably due to these two issues that need to be dealt with effectively. Each system has its own features, represents different corporate structures and diverse aims of corporation.

The Anglo-Saxon Model

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The Anglo-Saxon model of corporate governance which is also known as marketbased systems or shareholder-value system or principle-agent model is considered as the most dominant theory championed by the United States and the United Kingdom. Market-based system of the United Kingdom and the United States are characterized by arm's length relationship between corporations and investors who are said to be concerned primarily about short-term returns (Frank and Mayer, 2004). The shareholders value system has been a dominant academic view of the corporation for many years. This is evidenced, beside the United States and the United Kingdom, by the practice of many corporations in other countries which uphold the shareholders system such as Australia, New Zealand, Canada, South Africa and majority of South East Asia Countries. Miller (2004:2) emphasizes that corporate governance concerns with shareholders value. In other word, the individual is sovereign the connection between customer sovereignty and corporate governance just not lies in the benefit customer derives from the corporation's output but the shareholders. The investors or the owners are also customers and that what drives shareholders value principles.

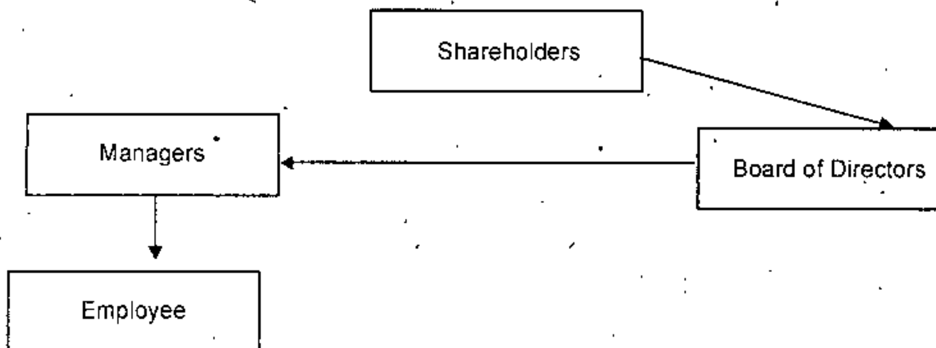

Figure 2.1. The Anglo-Saxon model of corporate governance.

The figure 2.1 appears to show that the Anglo-Saxon model based on the corporate concept of fiduciary relationship between the shareholders and the managers motivated by profit-oriented behaviour. This conception is derived from the belief of market capitalism whereby the interest and the market can function in a self-regulating and balanced manner. One of the most distinctive aspects of the Anglo-Saxon system is the structure of corporate ownership where the share ownership is widely dispersed and shareholders influence on management is weak. That is the reason why in the Anglo-Saxon system, the corporation really needs strong legal protection to protect the shareholders. In short, the central preoccupation of corporate governance in the Anglo-Saxon system is to protect the interest and rights of the shareholders.

The European Model

Since the publication of Berle and Means (1932), many have believed that there are significant problem with the Anglo-Saxon model. Another approach of corporate governance was introduced known as the Stakeholders or the European model. In this system, companies raise most of their external finance from banks that have close, long term relationships with their corporate customers. The Stakeholders model is focused on a relationship-based model that emphasizes the maximization of the interests of a broader group of shareholders (Adams, 2003: 4). The Stakeholders model of corporate governance is practiced by majority of the European countries such as German, France, and Greece where many large firms are part of social and economic structure. In addition, Scott, (2003: 533) writes that the proposal for reform in the South Korean corporate governance system also suggest the introduction of the European model of supervisory board or two-tier system and allowing banks to own greater equity shares in the corporation.

The European model or stakeholder theory rejects the three main propositions of the American model namely all stakeholders have a right to participate in corporate decisions that affect them, manager's fiduciary duty to protect the interest of all stakeholder and the corporation's objective to promote the interest of stakeholder and not only shareholders (Iqbal and Mirakhor, 2004: 46). The term stakeholders refer to groups of constituent who have legitimate claim on the corporation or a person who contributes directly or indirectly to the firms (Freeman, 1984: 46). Lepineu classifies the stakeholders into shareholders, internal stakeholders, the operational partners and the social community. Special attribute of the European model of corporate governance system is the practice of the two-tier system as in Germany or the French known as *"conseil de surveillance"*, comprising a supervisory board of outside directors and a separate management board of executive directors, in which structure the two boards meet separately (Yvon and Salma, 2005:7).

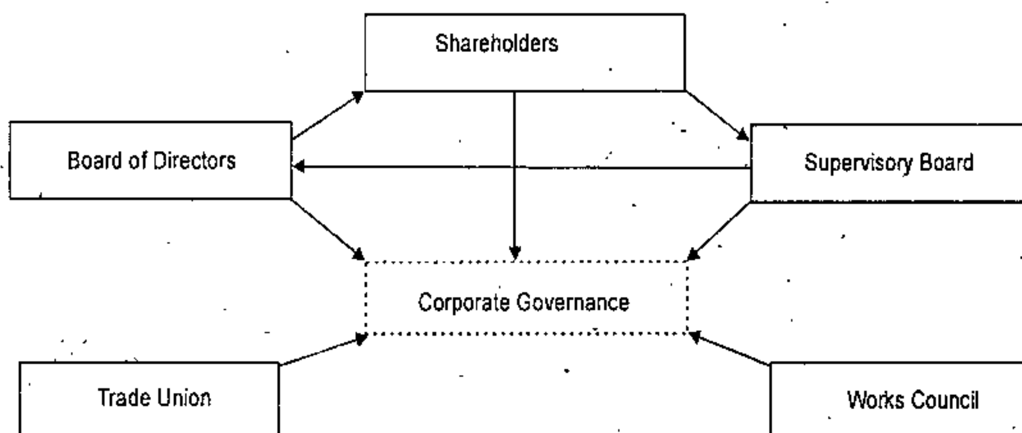

Figure 2.2. Corporate governance of the European model.

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In Germany, corporate governance framework mainly concerns on a few hundred large firms with more than 2000 employees and listed on the stock exchanges and operating on the two-tier system *i.e.*, supervisory and management board system. The legal system does not play much role in German corporate governance. A two-tiered system consists of management board and supervisory board which have the power to elect the management board. The supervisory boards however do not have much decision-making responsibility and codetermination undermines its monitoring effectiveness. For shareholders to sue management in case of negligent or tort, it would take a majority or 10 per cent at a general meeting to file a court petition (Scott, 2003: 529-530). The same conception is also being practiced in France where the board of directors and the managers hold duties not only to the company itself but to employees, the trade union, the works council and to the public at large (Snyder, 2007: 238–239).

2.9 ISLAMIC CORPORATE GOVERNANCE MODEL

Generally, it is observed that the main objective of the corporation including the so called Islamic corporation is to maximize the shareholder's value of wealth. This implies that in actual practice, many Islamic corporations adopt the Anglo-Saxon model of corporate governance (Lim, 2007: 737-738). The proponents of the Anglo-Saxon continuously attempt to defense their model and the opponents strongly criticize them especially in the aspect of principle-agent relationship or the agency problems. In the context of Islamic corporate governance, there are a few studies have been carried out particularly IFIs to come up with alternative models of corporate governance.

The studies seem to suggest that Islamic corporation may adopt a totally different model of corporate governance or a modified version of the Stakeholder-oriented model as an alternative for its corporate governance framework. The former refers to the corporate governance model based on the principle of consultation where all stakeholders share the same goal of *Tawhid* or the oneness of Allah (Choudury and Hoque, 2004) and the latter concerns on adopting the stakeholders' value system with some modifications (Iqbal, and Mirakhor, 2004) and (Chapra and Ahmed, 2002).

Tawhid and Shura Based Approach

Although all the Islamic economists or Muslim jurists agree on the concept of *Tawhid* as one of the philosophical pillars of Islamic economic, it is observed that little is written on the *Tawhid* epistemological methodology to the issue of corporate governance. Fortunately, Choudhury and Hoque, (2004) discuss the fundamental Islamic epistemology of *Tawhid* on their corporate governance model.

As the foundation of Islamic faith is *Tawhid* (Al-Faruqi, 1982), the basis for the corporate governance framework also emanates from this concept. Allah says in *al-Quran* "*Men who celebrate the praises of Allah standing, sitting, and lying down on their sides, and contemplate the wonders of creation in the heavens and the earth, (with the thought): "Our Lord! Not for naught Hast thou created all this! Glory to Thee! Give us Salvation from the penalty of the Fire*" (3: 191). This verse provides fundamental principle of governance where everything created by Allah has a purpose and human being is created to be the world's vicegerent. By putting a trust to mankind as a vicegerent, Allah plays actively roles to monitor and involve in every affairs of human being and He is aware and knowing everything all the times (Chapra, 1992: 202). As Allah knows everything and all mankind is answerable to Him, the principle of *Tawhid* shall be the foundation of the corporate governance model in Islam as the parties involved in the corporation are answerable and accountable to Allah.

According to Choudhury, an Islamic corporation is "*A legal entity where the principle and proportionate of the firm's shares owned by the shareholders based on equity participation and profit sharing ratios and deals with legal and organizational structures that control the internal governance of a firm with an objective to define and attain an objective criterion by way of understanding the relations between variables supported by policies, programs and strategic coalition*" (Choudury and Hoque, 2004: 58 and 83). There are four principles and instruments governing Islamic governance *i.e.*, extension of *Tawhid* unity of knowledge via interactive, integrative and evolutionary process to the interacting environing factors, the principle of justice, the principle of productive engagement of resources in social and the principle of economic activities and recursive intention amongst the above stages. All of these principles are the main premises of the Islamic corporate governance where the *Shari'ah* rules embedded in *al-Quran* and *al-Sunnah* make the Islamic corporation market driven and at the same time uphold the principle of social justice (Choudury and Hoque, 2004: 57—83).

The figure 2.3 shows that the Islamic corporate governance approach is premised on the *Tawhid* epistemological model whereby the functional roles of corporation are working via the *Shari'ah* rules. The principle of *Tawhid* derives important concept of vicegerency (*khilafah*), trust (*amanah*) and justice or equilibrium (*aladl wal Ihsan*). The stakeholders as vicegerent of Allah have fiduciary duty to uphold the principle of distributive justice via the *Shuratic* process. Chapra, (1992:234) mentions that the practice of *Shura* is not an option but it is rather an obligation. The constituent of *Shura* provides widest possible participation of the stakeholders in the affairs of the state including corporation either directly or via representatives.

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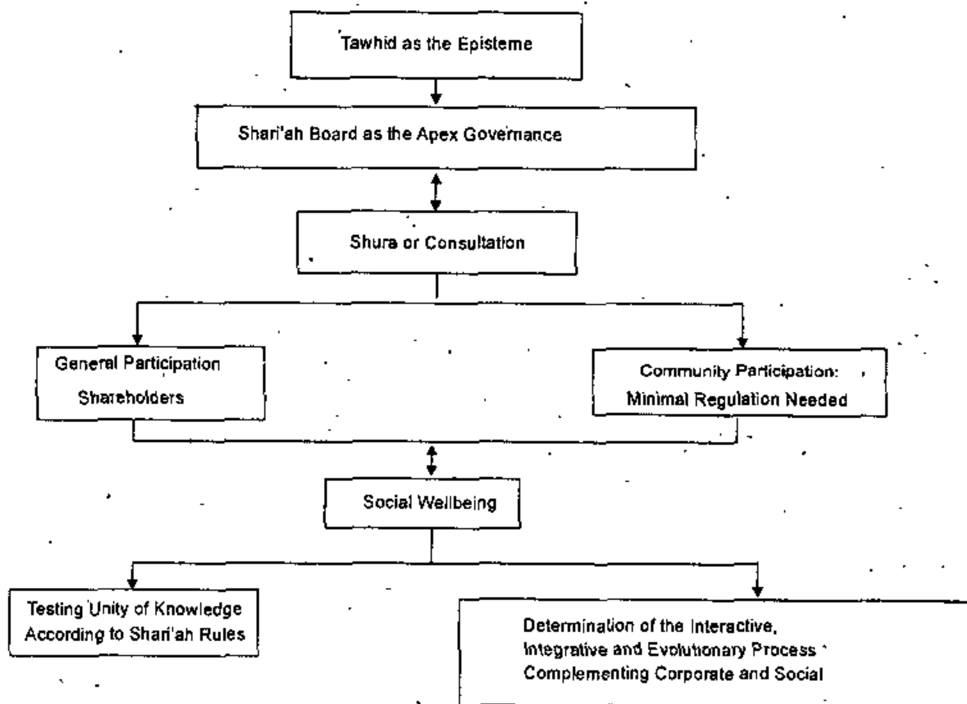

Figure 2.3. Tawhid and Shura based approach.

There are two main institution involved in the above process of corporate governance namely the *Shari'ah* board and the constituent of *Shura*'s groups of participants *i.e.,* all the stakeholders. In determining the scope of *Shari'ah*, the institution of *Shari'ah* board comes into a picture and it plays crucial role to ensure that all corporation activities are in line with the *Shari'ah* principles. In addition, the shareholders also play a big role as active participants and conscious stakeholders in the process of decision making and policy framework by considering the interest of all direct and indirect stakeholders rather than maximize their profit alone. The other stakeholders including community should also play their roles to provide mutual cooperation to protect the interest as a whole and to stimulate the social wellbeing function for social welfare. All of these processes are centered on toward fulfilling the ultimate objective of Islamic corporate governance of complementing the private and social goals via upholding the principle distributive justice (Choudury and Hoque, 2004: 85–88).

The *Tawhid* and *Shura* based approach provides the epistemological foundation of Islamic corporate governance. This approach however seems to be unclear and ambiguous as to how it could be adopted and implemented in the current corporate governance system. Moreover, the practice shows that major corporations including IFIs tend to follow the existing corporate governance model which is founded on the episteme of rationalism and rationality. It is a time to focus more on the empirical studies rather than theoretical to study and examine the operational aspects of this *Tawhid* and *Shura* based approach.

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Stakeholders Based Approach

Chapra and Ahmed, (2002: 13—20) in their research on corporate governance of IFIs emphasize on the notion of equitably protecting the rights of all stakeholders irrespective of whether they hold equity or not. This seems to support the model proposed by Iqbal and Mirakhor, where they view that the corporate governance model in Islamic economic system is a stakeholder-centered model in which the governance style and structures protect the interest and rights of all stakeholders rather than the shareholders per se 6(Iqbal and Mirakhor, 2004: 43, 48). Their main arguments are based on two fundamental concepts of Islamic law namely principle of property rights and commitment to explicit and implicit contractual agreements that govern the economic and social behaviour of individuals, society and state. These two principles provide strong justification for the notion of classifying Islamic corporate governance as a stakeholder-oriented model. In addition, Nienhaus, (2003: 290) states that Islamic corporate governance should be based on value oriented and promote the principle of fairness and justice with respect to all stakeholders.

The principle of property rights in Islam clearly provides a comprehensive framework to identify, recognize, respect and protects interest and rights of every individual, community, the state and corporation. In fact, rights of ownership, acquisition, usage and disposition of the property itself are considered as property (*al-mal*) which has beneficial use and value. In term of the rights of ownership, Islam declares that Allah is the sole owner of property and human being is just a trustee and custodian in which it implies the recognition to use and manage the properties in accordance with the *Shari'ah* rules (Iqbal and Mirakhor, (2004: 50). There are various verses of al-Quran mentioned the principle of property rights and one of them is in surah 57:7 Allah says: *Believe in Allah and His Messenger and spend of that whereof He made you trustee"*. The implied meaning of this verse lays down the principle of property's ownership where the mankind is only regarded as a trustee of God.

Beside, Islam recognizes private and society or state ownership. This implies the recognition of individual ownership in corporation as shareholders and at the same time *Shari'ah* rules provide guidelines to the individual, corporation and the state on how to deal with the property ownership. In short, the concept of property rights in Islam is based on these fundamental principles *i.e.,* the rights on the property is subjected to *Shari'ah*, the enjoyment of rights to property is balanced with the rights of society and the state, every individual, society and the state is stakeholders and the recognition of rights of stakeholders by Islamic law (Iqbal and Mirakhor, (2004: 54).

Contractual framework is also very unique in Islam. In *al-Quran surah* 5:1 Allah clearly reminds the Muslims on the principle of fulfilling each

their contractual obligations where He says: "*O you who believe, fulfill contracts*". This verse presents a basic foundation the notion of contract that every individual, society, corporation and the state are bound by their contracts which defines the rights and obligations of the parties. In relation with the issue on corporate governance, each stakeholder has duty to perform his contractual obligations in accordance with the term stipulated in the contract directly or indirectly. For example, the shareholders has duty to provide business capital, the management to manage and run the business, the employees to perform their respective duties and the state to ensure enforceability of the contracts in case of violation by any party. All of these duties arise through contractual framework and they are subjected to the rules of *Shari'ah*.

SUMMARY

- **Role of intuition** – Intuition is the act of coming to direct knowledge or certainty without reasoning or inferring.
- Indian ethos means application of principles of managing an organization revealed in our ancient wisdom described in Gita and Upanishads.
- God is great and bountiful. He gives us life, energy and resources to enjoy and share.
- Ancient wisdom is thought of integrating knowledge and action.
- The *Tawhid* and *Shura* based approach provides the epistemological foundation of Islamic corporate governance.

REVIEW QUESTIONS

1. What are different Indian ethoses?
2. What are the basic principles of Indian Ethos for Management (IEM)?
3. What is the lesson of management from Bhagavad-Gita?
4. Discuss Western and Islamic Perspectives of corporate governance.

FURTHER READINGS

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UNIT 3 ETHICS AND BUSINESS ETHICS

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★ STRUCTURE ★

3.0 Learning Objectives
3.1 Introduction
3.2 Nature and Objective of Ethics
3.3 Business Ethics
3.4 Ethical Issues in Capitalism and Market System
3.5 Important Factors of Building an Ethical Infrastructure
3.6 Marketing
3.7 Common Unethical Practices
3.8 Marketing Ethics—Important Issues
3.9 Consumer Protection
3.10 Consumer Rights
3.11 Legislation for Consumer Protection
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3.20 Trademarks
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3.24 Rights in Copyright
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3.27 Ownership and Transfer of Copyright
3.28 Intellectual Property
3.29 The Concept of Intellectual Property
3.30 Different Categories of IP Instruments
3.31 Rationale Behind Intellectual Property
3.32 Rights of the Owner of the IP, Other Individuals and the Society—Striking Balance
3.33 Enforcement of IPRS
3.34 IP and the Constitution of India
- *Summary*
- *Review Questions*
- *Further Readings*

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3.0 LEARNING OBJECTIVES

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

- know about the nature and objectives of ethics.
- explain about the business ethics.
- describe about the consumer protection.
- discuss about the ethics in accounting.
- know about role and responsibilities of the chief people officer.
- explain about the information technology governance.
- describe about the trademarks.
- know about the history and evolution of copyright.
- describe about the concept of intellectual property.

3.1 INTRODUCTION

Ethics is not a recent discovery. Over the centuries philosophers in their struggle with human behaviour have developed different approaches to ethics, each leading to different conclusion. The word "Ethics" which is coined from the Latin word 'Ethics' and Greek word 'ethikos' pertains to character. Ethics is thus said to be the science of conduct. As a matter of fact it deals with certain standard of human conduct and morals.

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The field of ethics involves *systematizing, defending and recommending* concepts of right and wrong behaviour. Ethics is a mass of moral principles or set of values about what is right or wrong, true or false, fair or unfair, proper or improper, what is right is ethical and what is wrong is unethical.

3.2 NATURE AND OBJECTIVE OF ETHICS

The liberalization and globalization being sweep changes in the concept of doing business, but the major by-product like corruption, favoritism and nepotism, deterioration of human values, series of scam in business, government policies and society are also produced in the 21st century.

There is a loss of faith in instruments of society. Business houses are becoming big with control of large resources, human, financial and technical but their surviving purposes to society are always having the doubtful values. Day by day innocent Indians are losing their faith in laws, courts and government.

At one side business enterprise are coping up with intense emerged competition and on the other side they are violating the principles of proper public conduct. In the wake of mounting scandals, corporations, all around the world are adopting ethical conduct, code of ethics. They are excellent organizations, which have shown a spurt of activity towards evaluation of goals, concepts, values related to management and conduct.

Ethical issues are more critical today than they have been ever been. Similarly the increased interest with ethics in India is also related to many issues as nexus between business, crime, politics, a series of scams, sordid events of the past few years in the public affairs of the country which have led many in the country to believe that the country is approaching destruction unless it reforms ethics.

In terms of practically applied the terms ethics and values became an important concern in the U.S. in the eighties. But fortunately the application of ethics in theory and practice in new millennium is gaining momentum rapidly. As the All India Council For Technical Education which regulates Ethics and Business Ethics the management education in India has in December 1995, recommended the inclusion of business ethics as a course in management studies curriculum.

Objective of Ethics

The objectives of ethics are as below:

1. The very basic objective is to define the greatest good of man and establish a standard for the same.
2. Set/Establish moral standards/norms of behaviour.

3. An overall study of human behaviour: what is moral or immoral *should be assessed.*
4. Apply judgement upon human behaviour based on these standard and norms.
5. Suggest moral behaviour, prescribes recommendations about Do's & Don'ts.
6. One's opinion or attitude about human conduct is expressed in general.

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Nature of Ethics

The nature of ethics can be explained by these points:

1. The concept of ethics is applied to human beings only as they have freedom *of choice and means of free will. They can only* decide the degree of ends they wish to pursue and the means to achieve the ends.
2. The study of ethics is nothing but a field of social science in which a set of systematic knowledge about moral behaviour and human conduct is learned.
3. Ethics deals with human conduct, which is voluntary not forced by circumstances or humans. So we can say that at the ground level ethics deals with moral judgement regarding set directed human conduct.
4. The science of ethics is a normative science. It is a search for an ideal litmus test of proper behaviour. Normative science *involves* arriving at moral standards that regulate right and wrong conduct.

3.3 BUSINESS ETHICS

In any organization from top executive to bottom line employees, ethics is considered as everybody business. It is not just only achieving high level of economic performance but also to conduct one of business's most important social challenges, ethically at the same time. Here what we get a combination of two familiar words-'Ethics & Business' in 'Business Ethics'. Different meaning is given to business as follows:

- Business ethics are the application of *general ethical rules to* business behaviour
- Business ethics are rules of business by which propriety of business activity may be judged.

By Cater Mcnamara—"Business ethics is generally coming to know what is right or wrong in the workplace and doing what is right—this is in

regard to effects of products/services and in relationship with stake holders." "Attention to ethics in workplace sensitizes managers and staff to now they should act so that they retain a strong moral compass. Consequently, business ethics can be strong preventive medicine."

According to John Donaldson, business ethics in short can be desired as the systematic study of ethical matters pertaining to business industry or related activities, institutions and beliefs. Business ethics is the systematic handling of values in business and industry.

- Business ethics are the rules of business by which the propriety of business activity may be judged.
- Business ethics concentrate on moral standard as they apply to business policies, institutions and behaviour. It is a specialized study of moral right or wrong. It is a form of applied ethics.
- Business ethics are nothing but the application of ethics in business. It proves that business can be and have been ethical and still make profits. Today more and more interest is being given to the application of ethical practices in business dealings and the ethical implications of business.

The 3C's of Business Ethics

1. Compliance (The need for compliance of rules including)
   - Laws
   - Principles of morality
   - Policy of the company.
2. The Contribution (business can make to the society)
   - The core values
   - Quality of products/services
   - Employment
   - Usefulness of activities to surrounding activities
   - QWL.
3. The Consequences of business activity
   - Toward environment inside and outside the organization
   - Social responsibility toward shareholders, bankers, customers and employees of organization
   - Good public image, sound activity-good image.

3.4 ETHICAL ISSUES IN CAPITALISM AND MARKET SYSTEM

Need of Business Ethics

1. Business operates within the society.
2. Every business irrespective of its size exists more on ethical means or in total regards to all its social concern to survive long.

3. Business needs to function as responsible corporate citizen in the country.

Objectives of Business Ethics

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According to Peter Pratley–Business ethics has a two fold objectives, it evaluates human practices by calling upon moral standards, also it may give prescription advice on how to act morally in a specific kind of situation.

Analysis and evaluation: Ethical analysis and ethical diagnosis of past events. happenings, clarifying the standards, uncover the moral values, habits of thought. How to evaluate the situation? Ethics provides rational methods for answering the present situation and related future issues. Well-equipped information is a must to achieve this second objective, a careful assessment of relevant information will lead to balanced judgments.

Approaches to resolve ethical dilemmas: It provides therapeutic advice when facing the present dilemmas and future dangers. Only the condition, which requires a true identification of relevant stakeholder and a clearcut understanding of crucial issues at stake.

Significance of Business Ethics

"Good business ethics promotes good business."

This statement is supported by the research findings of some well-known authorities – Raymond Baumhart, Brener & Molander, and Strom & Ruch. It was clear from their findings that only those businesses can develop on a long-term base that conducts activities on ethical grounds. Once Robert Day has said that good ethics not only promotes professionalism in management but it purifies the inner mind of every businessman. Another writer Thomas Donaldson (Ethics in business—a new look) has observed that—"There are some key reasons why business ethics is not a fad and why ethics plays a key role in business."

Positive consequences: Business depends on the approval of the society, acceptance of rules, mutual trusts and confidence. Prof. Robert day writes—"When ethical conduct is displayed, it puts some kind of trust and confidence in relationship." So business with ethics always leads to positive consequences.

Goodwill of the business and businessman: Good ethical behaviour will increase the goodwill of both business as well as the businessman. Strong public image is a symptom of success in the long run. On the other hand once an organization's image is tarnished it would have direct consequences on sales, profits, morale or day-to-day running of the business.

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Protection—both sides: If ethical implications are there in organization businessmen act more sincerely and the level of commitment would be higher. Ethics protects people in dealing with each other. Prof Robert Day writes, "Good ethics is sound business insurance."

Self satisfaction: In the dynamic world, businessmen are seeking self-satisfaction, mental relief, free from anxiety, release tension. To attain the inner satisfaction certain people consider only good ethics can promote good business.
As a businessman is first a member of the society than a businessman, so some do not implement a decision, which stands on unethical ground because it wouldn't provide the satisfaction to their sub-conscious mind.

Encourage others: When a few people start following ethics side by side to profit making, tney encourage, motivate others and set examples for them. As Prof. Learned & Associates writes- "Businessman who follows the ethical principles in the conduct of business, motivates others also to follow the same principles."

Success and development: Ethical conduct of business leads to development and series of success. Learned writes- "A sincere person who does hard work becomes ethical and always succeed in his efforts but an unethical person cannot."

New management: In the era of global economy, new principles are required in new management. Prof. Day writes that management cannot become a profession so far as it does not follow good ethics. An important feature of a profession is that it has a laid down code of conduct, which remains on all the principles of "service to humanity." So to run the good business in modern scenario you have to develop and follow ethics.

3.5 IMPORTANT FACTORS OF BUILDING AN ETHICAL INFRASTRUCTURE

Some important factors of building an ethical infrastructure in the organization are as follows:

Commitment from Top Management

As the top executives are the leaders, so if they take an ethical initiation, it would be easy to spread it downside. Ethical behaviour should be fully supported by the top management. They must set some examples in front of the employees from their own level if commited to ethics.

Ethics committee—some boards have established a separate ethics committee which oversee development and operation of ethics program. Some companies do have full time ethics officer, like USAA, a diversified financial service company. The chief executive officer, Robert T. Herres, is the chief ethics

officer and he appoints an ethics coordinator to oversea the program. This committee may consist of internal and external directors. According to Koontz and Weihrich this committee will perform the following functions:

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1. Holding regular meetings to discuss ethical issues.
2. Dealing with grey areas.
3. Communicating the codes to all members of the organization.
4. Checking of the possible violations of the code.
5. Enforcing the codes.
6. Rewarding compliance and punishing violation.
7. Reporting activities of the committee to the Board of Directors.

Code of Ethics

To establish and to encourage ethical conduct formal codes of ethics for organization members must be framed. These corporate codes of ethics vary in quality and substance. Some of these consist of a set of specific rules, a list of do's & don'ts. A code of ethics states an organization's basic and primary values and the ethical rules, so the rules of conduct are like a general value statement, which lacks a framework of meaning and purpose.

Code of conduct are not merely rules and regulations, their scope is somewhat different. A code cannot list and mandate every form of ethical and unethical conduct. A good corporate code of values and *conduct should include certain managerial and employee* guidelines for making ethical decisions. Frank Doly of Northrop Grumman has suggested—Codes of conduct should be policies that are easy to read, who don't like to read can't read, easily understood by people or respond much better to visual information. Take creative license in the presentation. Some organization have reduced voluminous codes of conduct to just a few core values, for example Texan instruments a global semiconductor company, ended up their codes of conduct with just 3 words—Integrity, Innovation and Commitment. A list of code of ethics is given below:

- Do not use abusive language
- Manage personal finance well
- Demonstrate courtesy, respect, honesty, and fairness
- Exhibit good attendance
- Conduct business in compliance with law
- Follow all accounting rules and control
- True claims in product advertisements.

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Communicating Ethics

The best ethics program in the world is the one that is communicated well. The communication should be in various forms and frequently occur. Communicating all code of ethics, core values can be done by an easy way- written form supplemented with some questions in the form of feedback. The supervisors can hold meeting with employees to discuss ethical concerns.

A proper well-designed communication network is needed to institutionalizing ethics. Therefore, Purcell and James Weber suggest that this can be accomplished in 3 ways:

- By establishing appropriate company policy and ethical rules
- By using a formally appointed ethics committee
- By teaching ethics in management development program.

Ethics Training

There is a great need for ethics training because only communicating well is not sufficient to convert values into practice, sometimes employee may think that they know each and every aspect about ethics, ethical decision making but they might be unaware of the ideas of the actual evaluation process, implementation and consequences of the decision making. Therefore ethical training program are very crucial. Effective ethics training should have:

- Employee participation to exchange views with each other and open discussion of realistic ethical issues.
- Clarify the ethical values and enhance the ethical awareness of employees.
- Define criteria for ethical decision making within the organization.
- Being detailed, extensive to accomplish anything significant.
- A clear intense focus on ethical issue of the organization.
- Investigate ethical environment, analysis the activities, strategies, resources, policies and goals and after examining go on enriching them.

Ethics Officer

An ethics specialist is a full-fledged member of the board of director. He has a "kitchen cabinet" to serve as a sounding board and to drive ownership of the program throughout all areas of business. He acts as a guide for ethical conduct and ethical decision making. The ethics officer provides some resources for assistance to the employees of the organization, so that if they find any wrong doings while working, they can report directly to him.

For example, at USAA, the ethics coordinator is part of the CEO's office and works closely with the company's ethical council, a group of senior executive who review issues of major significance and take appropriate actions.

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Response and Enforcement

Implementing an ethical program consistently is one of the biggest challenges for organizations. A consistent response to ethical issues involves so many criteria like—reward system (for those who have shown ethical character), built in incentives, this can be further supported by checklist method.

According to Bennett, employee can be taught to apply the following checklist when confronted with an ethical dilemma:

(1) Identifying the dilemma.

(2) Collect the facts.

(3) Make a list of your options.

(4) Test each options.

(5) Make your decision.

A consistent enforcement by carefully coordinating with human resources personnel or by establishing an ethics coordinating committee that can review or hear appeals on disciplinary actions.

Audits, Revisions and Refinements

Audits should establish to reveal whether communication about ethical codes of conduct works well or not. What are the results of training program? It is a detailed investigation about potential violations of law or regulation. The experts in audit committee would be executives of the organization or can be hired from outside consultants. Many companies are finding effective ways to judge about the effectiveness of their program like surveys, focus groups and detailed exit interviews often conducted by outside consultants for unbiased feedback. A review for value program must be allowed. In this dynamic world, every month, every year circumstances change which demand managers to revaluate the goals and content of their program, sometimes after the evaluation, managers begin with a fresh look as well as a courageous hand to stop the continuation of an idea whose time has passed.

3.6 MARKETING

Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses. According to American Marketing

Association "Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goods." Or Marketing is societal processes by which individual's group structure procures what they need or want freely exchanging goods and services value of it. A number of distinct functions comes under it like:

- Product development
- Distribution
- Pricing
- Promotion
- Sales.

Now the question arises why should marketers worry about ethics? What role do the moral values play in an economic system? Is it the need of the hour to be ethical while marketing? Is it the competitive pressure/ legal laws, which force them to consider ethics in marketing, or they have realized that in the changing climate of consumerism, they have to adopt ethical view to understand and meet the need of 21st century customers?

Ethics in marketing is not all together a different concept or it is not performing marketing with a different concept/style but simply— "It is the function and process of marketing keeping to the standard norms of it and achieving the ends through a sound means."

As we know that the focal point of ethics is 'normative' ('what ought' to *be) rather than 'what is'. Though the ideal situations may vary from* group to group and from time to time. Therefore, the marketers who wish to avoid criticism from competitors, customers, Government, other stakeholders must follow some ethics.

3.7 COMMON UNETHICAL PRACTICES

We will see these practices under 4 P's of marketing mix.

Product	**Price**	**Place**	**Promotion**
Quality	List price	Channels	Sales promotion
Features	Discount	Locations	Advertising
Warranty	Credit terms	Inventory	Public relation
Brand name	Payment-period	Transportation	Direct marketing
Size			
Packaging			
Design			

Therefore the common unethical practices are:

- Duplication of original brands.
- Inadequacy and insufficiency in warranty offering time and service.
- Not producing quality product.
- Question mark on products safety.
- Unauthorized manufacturing of hazardous products.
- Production of non-bio-degenerate plastic products, which causes environmental pollution.
- Discrimination in pricing.
- Differentiation in pricing.
- Excessive mark up prices.
- Misleading and deceptive advertisement.
- False promises.

Ethics in Marketing and Consumer Protection 681:

- Lower the dignity of women.
- No fairness, transparency in relations with suppliers and retailers.
- Artificial scarcity.

This is an established fact that the right action is the one, which produces the good results for the most people in specific situation. This can be a useful guide to develop and form marketing ethics.

3.8 MARKETING ETHICS—IMPORTANT ISSUES

Marketing ethics can be best understood in the light of its all-marketing mix-product, price, place, promotion and people.

Ethical Product

Product is the first and fore-most important element of marketing mix. A product is any thing that can be offered to a market to satisfy need or want. The producers know more about the product than the buyer, so he should be extra careful as not to break the trust of the buyer. Chonko (1995) has given some conditions, which should be considered while product development:

(a) ***Initiation of the idea***—Whose creativity, is involved behind the idea to develop the product?

(b) ***Planning and screening of product design***—Which criteria the firm follows-only profitability and not safety utility or keeping a balance between profitability and safety-welfare? This stage

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depends upon the status of the in-company investments. The moment when the economics of scale are achieved, the company shows more concern for utility and safety of the product.

(c) ***Development of the product***—If little attention is paid to the way consumers would actually use the products, the marketers must be ready to bear the consequences of failure of the product so the crux of marketing ethics says that extra precautions are required in product development and evaluation.

(d) ***Marketing strategy***—Which kind of marketing strategy should be adopted? How much strong is the product to face the competition? Are extra efforts needed in marketing strategy to compensate some of its weak points? Or do you think you should be honest about its weak points? As the very success of any product depends upon its marketing strategy so it is required to answer all the above questions before adopting any one.

(e) ***Introducing the product in the market***—Should the company go for test marketing? What should be the sample size then? Should the company be transparent about its policies and strategies? Are they aware of the risks?

(f) **Decline stage**—How the company should react in product decline stage? Should they go for some fair treatment try to overcome with decline stage? Do the companies follow pushing strategy to push the product by devious means, once a letter product is available in the market?

Ethics in Pricing

Price is a critical element of marketing mix which produces revenue. It communicates to the market the company's intended value positioning of its product or brand. A firm must set a price for the first time when it develops a new product or when it introduces its regular product into new distribution channel. Companies generally do not go for a single price rather a price structure that has some variations according to purchase timing, order levels, geographical demands, and market segment requirement like:

- Price discounts
- Discriminatory pricing
- Geographical pricing.

At this stage ethics comes into the picture. Here four major areas are most common in which unethical practices in pricing may occur:

(a) ***Price discrimination:*** It occurs when a company sells a product/

service at two or more prices that do not reflect a proportional differences in costs but it becomes illegal when seller offers different price terms to different people within the same group.

(b) ***Predatory pricing:*** Selling below the cost when just having the intention to destroy competition.

(c) ***Deceptive pricing:*** Deceive the customers to show them the wrong picture about the prices either by:

- Low price offer
- Inflated price.

(d) ***Price fixation:*** Prices are fixed at certain levels by firms either by:

- Horizontal price fixing—To fix the prices at artificially high levels.
- Vertical price fixing—Price fixing agreements between manufacturers and retailers or between manufactures and distributions. It says that product will be sold at the manufacturer's suggested price and will not be discounted by the retailer or wholesaler.

Here the concept of distributive justice given by John Rawl's can be applied as we say if unique universal pricing is established, then it would be against the distributive justice. On the other hand if a favourable price is providing towards the weaker section, though it would be a sort of discrimination but this would provide a desired justice to the weaker segment of society and this would be anywhere consider as ethical.

Ethical Promotion

Promotion plays an important role in marketing of any product/service. It would come up with perfect outcomes only if the perfect means would have been adopted. Promotional mix consist of sales promotion, advertising, sales force, public relation, direct mail etc.

Promotional claims must be of such type that the reality of the company and its standard must match. Symmetry of information between the buyer and seller is an essential prerequisite for the ethicality of market system. Unethical promotions are those where the company's offer varies significantly from its claims.

(a) ***Ethical issues in advertising:*** Advertising is multi-dimensional. It is a form of mass communication, a powerful marketing tool, a component of the economic system, a social institution, an art form, an instrument of business management, a field of employment

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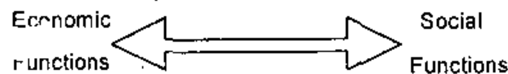
and a profession or advertising can be defined as any paid form of non-personal presentation of ideas, goods and services by an identified sponsor.

As earlier mentioned, Ethics is a choice between right and wrong, good or bad. *It is governed by a set of principles of moralities at a given time*, at a given place. Ethics is related to group behaviour in ultimate analysis. Advertising too has ethical values. Advertising communication is a mixed form of arts and facts. In order to be customer-oriented an advertisement will have to be truthful and ethical. It should not mislead the consumers. If so happens the credibility is lost. Advertisement's truth is to be judged and viewed from the consumer's point of view, not in the narrow legalistic framework. As we can say that in advertisement field, it is very difficult to establish a clear line of demarcation between what is true and what is untrue. Advertisement is judged by its impact, by its acceptance, by the consumers, what it promises to provide must be actually there in the performance of products. As advertising is a social process, it must honour time-tested norms of social behaviour and should not affront our moral sense.

Advertising play two important functions:



(b) ***Economic functions:*** The very basic function of all the advertisements is to promote any product/service by its unique strategies. So the advertisement agencies must accomplish all the ad's with:
- Communicating properly and effectively
- Communicating to right people
- Communicating right message
- Put across thru brilliant and persuasive language
- Not only marketing the products but introducing and spreading *corporate ethos and corporate philosophy.*

(c) ***Social functions:*** Advertising must reflect the cultural values of that society as ads affect not only the core cultural values but successful advertisement is consistent with society cultural values. *It can transfer some cultural values of one society to another at* a given point of time.

Ethics in Channel

How to place your products and services cannot be overlooked because until and unless the product is well placed, the desired outcome not be received. To reach a target market, the marketer used three kinds of marketing channels:

(a) ***Communication channels:*** Deliver and receive messages from target buyers and these include newspapers, magazines, radio, T.V. etc.

(b) ***Distribution channels:*** These are used to sell or deliver product services to the buyers or users. They include distribution, wholesalers, retailers and agents.

(c) ***Service channels:*** These are used to carry out transaction with potential buyers like banks, insurance, transportation companies etc.

Marketers clearly face a design problem in choosing the best mix of communication, distribution and the service channels for their offerings and here the scope of unethical practices may occur. Channel decisions taken by companies are very much influenced by companies' systematic and unsystematic factors. Once any one supplier, wholesaler starts unethical practice, it would substantially reduce competition. Though it is hard to identify the unethical distribution strategies but when unethical means of expansion becomes the rule of the day it evaporates competition.

"Marketing ethics is a sub-set of business ethics and examines the moral issues relating to marketing decisions made by organizations. Although its roots can be traced back to the 1960s, marketing age is believed to have come of age only in 1990s, thanks to extensive research on the subject carried out in the decade before. (Murphy, 111). Several topics make up the fabrics of marketing ethics such as product quality, safety and liability, fairness in pricing, honesty in advertising and selling, privacy in Internet database and marketing. According to Kotler, in recent years people have started questioning the value of marketing concept, when the world is faced with environmental degradation, resources shortages, hunger and poverty and neglected social services."

3.9 CONSUMER PROTECTION

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider on our business; he is a part of it. We are not doing a favour by serving him. He is doing a favour by giving us an opportunity to do so."

—Mahatma Gandhi.

"Consumer is God" Philip Kotler has realized the most important fact about marketing that even the best marketing department in the world cannot compensate for other departments lacking a customer orientation.

If we compare the consumer of 21st century and earlier days, we find

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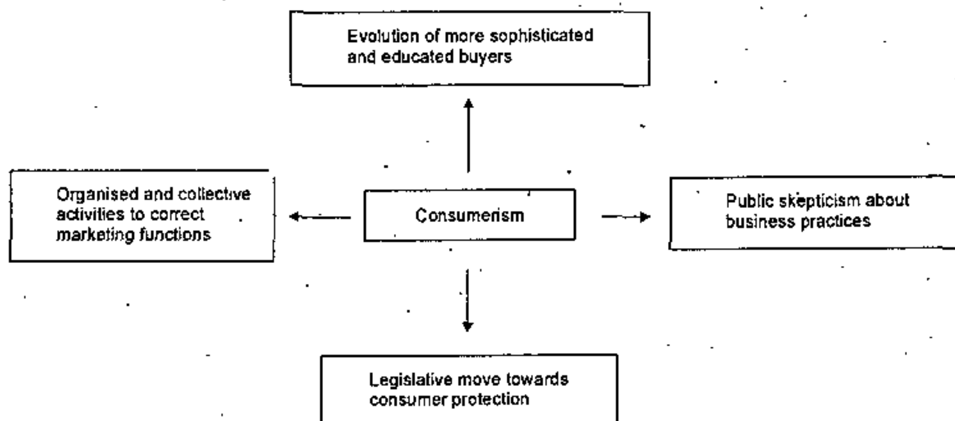
today, the consumers are very much aware of their rights, they are organized as well as educated. In today's globalisation era, the consumers have a lot of choices to make decisions and select the product and services of their own choices.

As mentioned earlier about the various unethical practices by marketers and the exploitation of consumers have led to the creation of the consumer movement or is named as "Consumerism."

Philip Kotler says, "Consumerism is an organized movement of citizens and government and to enhance the rights and power of the buyer in relation to seller." Peter F. Drucker "Consumerism is the shame of total marketing concept. Consumerism should be, must be and I hope will be an opportunity of marketing, this is what we in marketing have been waiting for." Consumerism is the range of activities, a catchword to describe a variety of distinct phenomena which are designed to protect the consumer from the unlawful practices of the business that infringe upon their rights as consumers.

Consumerism describe the kind of phenomenon in which buyers try to attain a marketing system which guarantees to consumer the right to safety, the right to be informed, the right to choose, the right to be heard etc.



Now-a-days business firms are changing their attitudes towards consumerism. They are taking it more positively and trying to improve the situations by following the consumer's need, requirements, demands etc.

3.10 CONSUMER RIGHTS

In the present scenario, the consumer policy issue, consumer protection is no longer confined to local or national boundaries. As consumer is exposed to global product and services, therefore consumer issues too need to be studied and understood in the global context.

In this regard, the United Nations has been guiding all the member nations since very long. It has adopted a set of general guidelines for consumer's protection which are:

1. Physical safety.
2. Promotion and protection of consumer's economic interest.
3. Standards for safety and quality of consumer's goods.
4. Distribution facilities for essential consumer goods and services.
5. Education and information programme.
6. Measures relating to specific areas (food, water, harmful drugs etc.).

In 1983, the UN General Secretary had described the purpose of these guidelines. The UN has also declared eight rights of consumers and requested all member nations to enact a special act for the protection of the same:

1. The Right to Protection of Health and Safety
2. Right to Get Information
3. Right to Choose
4. Right to be heard and Right to Redress
5. The Right to Consumer Education
6. The Right to Basic Needs
7. The Right to a Healthy Environment
8. The Right to Representation.

3.11 LEGISLATION FOR CONSUMER PROTECTION

1. The Agricultural Product (Grading and Marketing) Act, 1937.
2. The Drugs and Cosmetics Act, 1940.
3. The ISI Act, 1952.
4. The Drug and Magic Remedies (Objectionable Advertisements) Act, 1954.
5. Prevention of Food Adulteration Act, 1954.
6. The Essential Commodities Act, 1955.
7. The Trade and Merchandise Marks Act, 1958.
8. The MRTP Act, 1969.
9. The Hire Purchase Act, 1972.
10. The Water (Pollution and Prevention) Act, 1974.
11. The Cigarette (Regulation, Production, Supply and Distribution) Act, 1975.
12. The Standards of Weights and Measures Act, 1976.
13. The Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980.
14. The Bureau of Indian Standards Act, 1986.

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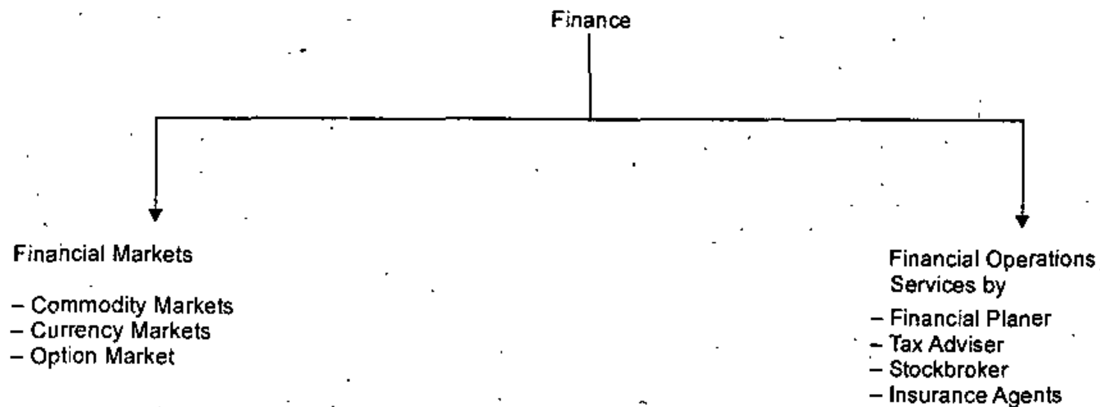
15. The Consumer Protection Act, 1986—This Act provides a legal umbrella for better protection of the rights and interest of consumers. Enactment of this act is one of the most significant steps to safeguard and protect the interest and rights of consumers and promoting a strong and broad based consumer movement in the country. It is quasi-judicial machinery, which works at 3 levels:
    - Consumer Disputes Redressal Forum at the District level
    - Consumer Disputes Redressal Commission at the State level.
    - Consumer Disputes Redressal Commission at the National level.

3.12 ETHICS AND FINANCE

Ethics and finance, a very new discovery! What role do ethics play in financial sector is not much discussed earlier. If we think deeply, we find that there is a close relationship between ethics and finance. Finance would be impossible without ethics. High finance is the particular area where most of the breakdowns of ethical norms occurred. The basic foundation of business is trust, as we place our money or our assets in the hands of other unknown people to carryout our business sometimes these unknown people come out as untrust-worthy like untruth agent or attorney. If we talk about finance, it's a very wide area full of complex activities, but broadly we find:



For smooth running of any economy, its financial activities must be ethical. Here we don't say that high return on investment or high interest rate *etc.*, is not desirable. Good finance is the lifeblood of any organization.

As huge amount is involved in financial dealings, people invest their money with financial institution, seeking their better life after the retirement, so there must be well developed and organized structure of ethics to ensure personal and organizational welfare.

3.13 ETHICS IN ACCOUNTING

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Accounting is the process by which any business keeps tract of its financial activities by recording its debits and credits and balancing its accounts. It is a system of principles applied to present the financial position of a business and the result of its operations and cash flows. Some common ethical issues related to accounting practices are as follows:

1. Falsifying financial statements and documents.
2. Under reporting income.
3. Ambiguity in reporting.
4. Tax evasion.
5. Allowing/excepting doubtful deductions.

3.14 ETHICAL ISSUES AND PROBLEMS

Unsuitability

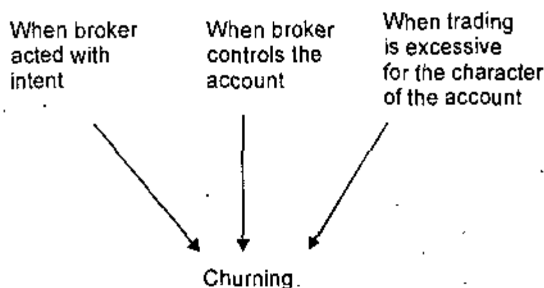
Insurance agents, brokers and other sales-person cheat innocent investors by recommending unsuitable securities and financial products.

Deception

Deception is quite common unethical practice in India by strengthening the returns and minimizing the weaknesses and risk factors. Sales persons, agents, advisers deceive the public using the misleading statements like tax free or 0% interest etc., they make public unable to make rational choices among so many alternatives.

Inappropriate and Excessive Trading

This situation arises when the broker keeps an intention to generate commission rather than benefits to client in the standing of having control over the client's account. It's a kind of 'Churning' breach of a fiduciary duty.



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Fraud and Manipulation in Markets

As by law all the participants in the financial markets are same so fairness in our dealings is desired. Here preventing losses rather does not mean the fairness it contributes to the efficiency. Here fraud means when a company fails to report proper information and manipulation of buying and selling of securities for the purpose of creating misleading impression about price to misguide the investors to buy or sell the securities.

The important information lays in the hands of issuing firms so the investors whether buyer/seller are vulnerable to fraud and manipulation. They have to rely on the information available to them, which is hard to verify.

Unequal Bargaining Power

It's a quite common unfair practice along with unequal information in the financial market. The principle of equal bargaining power says that all the parties have relatively equal bargaining power.

Insider Trading

The act of buying or selling a company's stock on the basis of 'inside' information about the company is called as 'insider trading'. Insider trading is illegal as well as unethical. The informations which is confidential and not available to the general public out side the company, have a significant impact on the price of the company's stock. So the person who is practicing insider trading in true manner steals this information and enjoys the unfair advantages over the member of the general public.

Creative Accounting

It refers to accounting practices that may or may not follow the rules of standard accounting practices. It sometimes goes for systematic misrepresentation of the true income and assets of the firm.

Creative accounting is sometimes called as "Cooking the books" which may be legally correct but morally dubious. Creative accounting is at the root of number of accounting scandals like Enron, World COM etc.

Slush fund accounting is also nothing but a sort of creative accounting in which some earnings from this quarter are hidden away if the profit from the next quarter is not enough for management to make their bonuses. Smaller companies use creative accounting for tax saving purpose, whereas large firms use it for meeting bonuses or shareholders expectations. Placing a hypothetical monetary value on intangibles is also an another form of creative accounting.

Earnings Management

According to Healy and Whalen (1999), "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the under laying economic performance of a company or to influence contractual outcome that depend on reported accounting numbers.

Management does some manipulation and adjustments to show earnings at a certain level or follow a certain pattern in financial reporting. Earning management usually involves:

- The artificial increase/decrease of revenues, profits or earnings:
- Excessive provisions and generous reserve accounting.
- Inappropriate accruals and estimates of liabilities.
- Intentional minor breaches of financial reporting requirement that aggregate to a material breach.

Securities Fraud

As the industries are developing more complicated investment vehicles to obtain higher rates of return. Simultaneously securities fraud is also becoming more complex. It is a practice where investors are deceived and manipulated. Enron and WorldCom scandals are the recent examples of this securities fraud.

A lot more unethical practices are prevalent in corporate finance. It is felt by so many ignorant and unaware people that ethics can not be involved in finance but in reality we say that finance would be impossible without ethics because the very act of placing our assets in the hands of other people requires immense trust.

Ethics in finance is about far more than trust. It is too difficult to define a complete account, which is the need for ethics in finance in few words:

- First of all finance is not like medicine, law. Accounting is not a clearly identifiable occupation or profession. It involves highly technical body of knowledge and financial experts engage in a much wider range of activities.
- Accounting ethics focuses on the ethical problems of a relatively uniform activity. Accountants do much the same work in every setting and so many accounting practices like public and management accounting, external and internal auditing can be addressed in a uniform code of ethics.
- If we talk about the wide range of activities in finance, we cannot find single code of ethics for each and every activity in finance.
- Ethics in finance is concerned not solely with the ethical problems of individual in a specific occupation but also with problems in financial markets and financial institutions.

3.15 HUMAN RESOURCES

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Both the private and public sector organizations employ a diverse and knowledge-based workforce comprised of individuals with a broad spectrum of technical and functional skills and institutional memory. They are the organization's human capital, its greatest asset.

To attain the highest level of performance and accountability, organizations depend on three enablers: people, process, and technology. The most important of these is people, because an organization's people define its character and its capacity to perform.

3.16 ROLES AND RESPONSIBILITIES OF THE CHIEF PEOPLE OFFICER

The Chief People (Human Resources) Officer or its equivalent is a key person in the C-level executive suite and has the following roles and responsibilities:

- Linking human resource (HR) strategy to business strategy.
- Supporting all employees of the organization from hiring to firing.
- Developing human talent acquisition and retention strategies that are sustainable over longer periods of time.
- Developing an HR manual describing policies, procedures, and standards expected of employees.
- Establishing and encouraging self-service systems so employees can select health care benefits and life insurance coverage, can schedule paid time off and vacations, can participate in attitude and satisfaction surveys, and can enroll in training and development courses.
- Conducting employee exit interviews to understand the reasons for leaving the organization. Incorporate the "lessons learned" from the exit interviews into the employee hiring-to-rehiring cycle
- Integrating HR administrative tasks with HR strategic tasks for maximum efficiency and effectiveness.
- Developing a "one system of record" to capture employee information in one place by integrating the back-end systems with the front-end systems through automation such as business application systems (*e.g.*, payroll and personnel systems) and Web-based systems (*e.g.*, resume requests, interview requests, job offers made, and job offers accepted). Some benefits of integrated systems include (1) maximum

data consistency, completeness, and accuracy, (2) better internal customer service and satisfaction, and (3) stronger connection of disparate and disconnected business processes.

- Linking HR costs to cash flows and gross profits, and lower total HR costs to increase profits.
- Increasing faster HR service deliveries to internal customers to achieve their total satisfaction.
- Innovating new HR service techniques and processes by leveraging technology to improve quality and to reduce costs.
- Eliminating non-value-added activities such as HR administrative and clerical tasks to reduce inefficiencies and to lower costs.
- Focusing more on value-added activities such as HR strategic tasks to provide a solid value to the internal customers and to the organization.
- Identifying key drivers of cost, quality, risks, expenses, revenues, profits, business growth, competition, and performance. Focus on the root causes of these drivers and understand why these drivers go up and down.
- Building standardized, transparent, and repeatable HR service processes to provide the stable, consistent, and quality services that internal customers expect.
- Understanding that increases in sales velocity increase inventory velocity, which, in turn, increases production or service velocity, finance velocity, human capital velocity, and systems velocity. The goal is to synchronize these velocities in a cohesive manner.
- Implementing the goal congruence concept by linking individual employee goals with those of the department/division and the organization. He must remove or reduce the competing or conflicting goals.
- Implementing crosscutting best practices across business units, divisions, departments, and functions through busting silos and building bridges.
- Linking employee rewards, bonuses, and promotions to employees' true performance and tangible results, and empower employees.
- Building solid working relationships with C-level executives in marketing, finance, operations, IT, and other functions through formal and informal approaches at the workplace.
- Fostering ethical values and cultural sensitivity in light of workforce diversity, and provide cross-cultural orientation and preparation.
- Encouraging employees to continuously acquire and improve their knowledge, skills, and abilities (KSAs) through targeted training

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courses, management development programs, and professional certifications.

- Establishing a solid and sustainable chain of knowledge linked through the entire management hierarchy to ensure adequate core knowledge competencies for all levels of employees in the organization.
- Inviting human resource audits, special management reviews such as benefits auditing, and self-assessments periodically and proactively to ensure continuous improvement in human resource function.
- Encouraging employees at all levels of the organization to think differently and radically (i.e., out-of-the-box thinking) at all times, which can lead to new perspectives providing best-of-breed solutions.
- Participating in the succession-planning process for key positions
- Adhering to professional and ethical standards established by the relevant professional bodies.
- Analyzing outside-in views (i.e., views of stakeholders about company management) and inside-out views (i.e., views of company management about stakeholders) to identify disconnections between these views and to integrate them in a coherent manner.

3.17 WORLD-CLASS HUMAN RESOURCES MANAGEMENT

Human Resources Strategy

Two principles are central to the human capital (human resources) idea. First, people are assets whose value can be enhanced through investment. As with any investment, the goal is to maximize value while managing risk.

As the value of people increases, so does the performance capacity of the organization and, therefore, its value to clients/customers and other stakeholders. Second, an organization's human capital policies must be aligned so as to support the organization's shared vision—the mission, vision for the future, core values, goals, and strategies by which the organization has defined its direction and its expectations for itself and its people.

All human capital policies and practices should be assessed by the standard of how well they help the organization pursue its shared vision. At most organizations, the lion's share of operating costs is devoted to the workforce. For this reason, employees traditionally have been viewed through the budgetary lens, and therefore they have often been seen as costs to be cut rather than as assets to be appreciated. However, high-performance organizations in both the private- and public sectors recognize that an

organization's people largely determine its capacity to perform. Therefore, the value of the organization is dependent on the value of its people. Enhancing the value of employees is a win-win goal for employers and employees alike. The more an organization recognizes the intrinsic value of each employee, the more it recognizes that this value can be enhanced with nurturing and investment, the more it recognizes that employees vary in their talents and motivations—and that a variety of incentive strategies and working arrangements can be created to enhance each employee's contributions to organizational performance—the more likely the organization will be to appreciate the diversity of employee needs and circumstances and to act in ways that will make sense in both business and human terms.

Listening to Stakeholder Voices

Human resources management, as a provider and overseer of employees for the company, should pay close attention in understanding and listening to the following "voices" to achieve organizational goals and to improve overall performance. When these "voices" are heard together, they bring attention to new perspectives and creative conflicts, forcing new thinking that leads to new solutions (i.e., best-of-breed solutions). Listening to the collective voice of many stakeholders at once will have a greater impact than listening to one voice at a time in isolation, because the former requires a balanced approach after considering all party's concerns.

For each content of each voice, a T-Column analysis should be prepared with "What happens if I listen to this voice" in the left column (benefits) and "What happens if I don't listen to this voice" in the right column (costs and risks). A comparative analysis of each content in each column will point to new problems requiring new solutions.

- Voice of the customer (external customers such as suppliers, vendors, contractors, consultants, key customers, regulators, investors, creditors, the stock market, labour unions, and media/press, and internal customers such as the board of directors, corporate management, and employees in other functional departments, such as marketing, manufacturing, finance, and IT)
- Voice of the process (process flows, process variations, process delays and waste, and process inefficiencies)
- Voice of employees (employee suggestion program, employee complaints and grievances, employee attitude surveys, and employee exit interviews)
- Voice of quality (TQM principles and practices, mistake-proofing, continuous improvement, cost of poor quality, work teams and

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focus groups, quality assurance, quality control, quality audit, quality council, and quality circles)

- Voice of standards (standards in hiring, training, benefits, and education; internal/ external benchmarks; ethical standards; and industry/organization standards)
- Voice of partners (insurance companies; electronic commerce vendors; training consultants, contractors, and institutions; private/public universities; corporate universities; job search firms; outplacement firms; and outsourcing vendors
- Voice of regulators (federal, state, and local laws and regulations)
- Voice of competitors (press releases, Web site pressrooms, industry magazines, daily business newspapers, advertising magazines, industry trade shows, product demonstrations and promotions, direct mail, e-mail campaigns, copyright/ trademark/patent news, business intelligence news, banner advertising, billboard and street advertising, product sponsorships, and online events and chat rooms)

Human Resources Cycle Time Measures

Cycle time reduction in HR deals with improving the employee hiring-to-rehiring cycle, with associated benefits such as increased performance and productivity, improved utilization of human and machine resources, decreased costs, and improved internal customer service. To attain these benefits, organizations must:

- Eliminate or decrease non-value-added activities (*e.g.*, paper-driven tasks; unnecessary handoffs; rework steps; waiting time; and delays at the interdepartmental and interdivisional boundaries and at the intradepartmental work stations).
- Enhance or increase value-added activities (*e.g.*, job application process time; job performance tests; new employee orientation time; employee performance appraisal time; employee counseling time; employee attitude surveys; employee exit time; use of automated systems; negotiating points between labour unions and organization management; internal/external customer access points to HR systems; HR project hold points; and HR management decision points and control points).

  This requires placing the right employees with the right skills in the right jobs throughout the organization so that delays and waste in HR operations are decreased. HR cycle times can be decreased with the use of automated workforce management systems that handle various activities within the cycle, such as employee hiring, job assignment and scheduling, training and development, performance

appraisals and feedback, career progression, and exit interviews. Some examples of HR cycle time measures include.

- Time elapsed between job (position) analysis studies. Job analysis study is conducted for a specific job function, a group of jobs, or for an entire department, division, or company. The longer the time elapsed, the less current a job description becomes, thus leading to waste of human talent and poor job performance. There could be a mismatch between employee skills and job requirements thus not realizing the full potential of employees.
- Time elapsed between human capital–forecasting periods. Human capital forecasting is performed to ascertain the supply of and demand for employees. The longer the time elapsed, the less the match between demand for and supply of employees.
- Time elapsed between employee performance appraisal and performance feedback to employees. The longer the time elapsed, the greater the employee frustration and the greater the disconnect between employee performance and rewards (*e.g.*, pay increase, bonus, and promotion).
- Time elapsed between a job opening and job filling. The longer the time elapsed, the greater the reflection of inefficient internal HR processes in recruiting and hiring.
- Time elapsed between employee succession plans. The longer the time elapsed, the less retention of talented employees and the less readiness on the part of the pool of qualified employees who can be moved into higher jobs as needed.

Human Resources Metrics

Some examples of HR metrics to improve employee performance and to increase productivity include:

- Yield ratios for each recruiting source (*e.g.*, universities, newspapers, and job search firms). The yield ratio is the percentage of job applicants who successfully move from one stage of the recruitment and selection process to the next. These stages include resumes received, first interviews requested, final interviews requested, job offers made, and job offers accepted. The higher the yield ratio, the greater the reflection of HR management efforts and the better indication of the quality of a recruiting source.
- Percentage reduction in employee turnover rates by job title, job function, department, or division.
- Percentage reduction in total employee costs (wages and benefits) as a percentage of revenues, sales, or profits.

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- Percentage increase in employee training and development cost as a percentage of revenues, sales, or profits.

3.18 INFORMATION TECHNOLOGY GOVERNANCE

IT Governance Definition

IT governance is and should be a part of corporate governance. In the information economy, successful enterprises integrate IT and business strategies, culture, and ethics in order to attain business objectives, optimize information value, and capitalize on technologies. Extended enterprises, which incorporate customers, business partners, vendors, stakeholders, and constituents, rely on the efficient and effective sharing of information, including goals, expectations, status, and ultimately knowledge. Making this happen at all is mission-critical to most enterprises—and making it happen as it should happen requires IT governance.

Effective enterprise governance focuses on individual and group expertise and experience where it can be most productive, monitors and measures performance, and provides assurance regarding critical issues. IT, long considered solely an enabler of an enterprise's strategy, must now be regarded as an integral part of that strategy. CEOs, CFOs, and CIOs alike agree that strategic alignment between IT and enterprise objectives is a critical success factor.

IT governance helps ensure achievement of this critical success factor by efficiently and effectively deploying secure, reliable information and applied technology. IT governance is a structure of relationships and processes used to direct and control the enterprise in order to achieve the enterprise's goals by adding value while balancing risk versus return over IT and its processes. The relationships are between management and its governing body. The processes cover setting objectives, giving direction on how to attain them, and measuring performance.

Simply put, IT is so critical to the success of enterprises that it is an issue that cannot be relegated solely to management or to IT specialists, but must instead receive the focused attention of both.

Relationship of Enterprise and IT Governance

Looking at the interplay of enterprise and ITgovernance processes in more detail, enterprise governance (the system by which entities are directed and controlled) drives and sets IT governance. At the same time, IT should provide critical input to and form an important component of strategic plans. IT may in fact influence strategic opportunities outlined by the enterprise.

Enterprise activities require information from IT activities in order to meet business objectives. Successful organizations ensure interdependence between their strategic planning and their IT activities. IT must be aligned with and enable the enterprise to take full advantage of its information, thereby maximizing benefits, capitalizing on opportunities, and gaining a competitive advantage.

How Enterprise and IT Governance Work

Enterprises set objectives, the attainment of which is governed by generally accepted good (or best) practices. From these objectives flows the organization's direction, which dictates certain enterprise activities and deployment of enterprise resources. The results of the enterprise activities are measured and reported on, which provides input for the constant revision and maintenance of the controls and thus launches the cycle again.

IT also is governed by good (or best) practices to ensure that the enterprise's information and related technology support its business objectives, that its resources are used responsibly, and that risks are managed appropriately. These practices form a basis for direction of IT activities, which can be characterized as planning and organizing, acquiring and implementing, delivering and supporting, and monitoring, for the dual purposes of managing risks (to gain security, reliability, and compliance), and realizing benefits (increasing effectiveness and efficiency). Reports are issued on the outcomes of IT activities, which are measured against the various practices and controls, and the cycle begins again.

IT governance is an inclusive term, which encompasses:

- Information systems, technology, and communication
- Business, legal, and other issues
- All concerned stakeholders, directors, senior management, process owners, IT suppliers, users, auditors, etc.
- How can IT governance, control, and assurance impact an enterprise's effectiveness?
- By addressing business issues, such as electronic commerce and enterprise resource planning (ERP)
- By assuring security, reliability, and integrity of strategic information
- By protecting the enterprise's investment in IT, including systems and networks
- By ensuring the appropriate management of an entity's information assets, which are often directly responsible for the success and survival of the entity itself Simply put, IT governance is good business.

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IT Governance Best Practices

Organizations should do the following to establish and maintain their I governance function:

- Develop a charter for the IT governance function describing th function's mission, vision, goals and objectives, duties an responsibilities, and authority in the organization.
- Appoint an IT Corporate *Governance Officer reporting to the* CG and not to the CIO. Similarly, an IT Security Governance Office should report to the IT Corporate Governance Officer, not to th CIO.
- Link IT governance objectives to corporate governance objective
- Link IT security governance objectives to IT governance objective
- Allocate budget to the proper functioning of IT governance functio
- Prepare periodic reports to the Board of Directors of the organizatio on IT Governance issues and problems, explaining their resolutio along with open issues and problems.

3.19 INFORMATION TECHNOLOGY CHANGE MANAGEMENT

Overview

The scope of IT change management includes changes in systems softwar hardware, applications software, and networks and their associated equipmen For example, applications software for an order-processing system ma require changes if a company acquires or merges with another compan Organizational culture (employees) can be the most troubling factor i implementing organizational changes. Organizational culture may be define as the underlying assumptions, beliefs, values, attitudes, and expectation shared by an organization's employees. An organization's beliefs and value affect the behaviour of its employees. Many organizations are active trying to perpetuate some cultural values and change others to increas their chances for being competitive or effective.

(i) **Principle 1:** Become a facilitator of change and orchestrat management of change associated with IT implementation.

(ii) **Principle 2:** Develop and enforce policies and procedures for definitio and assignment of *accountability and authority.*

(iii) **Principle 3:** Build relationships with business unit function head and their staff. Best Practices and Procedures for Principle 3.

(iv) **Principle 4:** Manage current and emerging trends. Best Practices and Procedures for Principle 4.

3.20 TRADEMARKS

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Trademarks already existed in the ancient world. Even at times when people either prepared what they needed themselves or, more usually, acquired it from local craftsmen, there were already creative entrepreneurs who marketed their goods beyond their localities and sometimes over considerable distances. As far back as 3,000 years ago, Indian craftsmen used to engrave their signatures on their artistic creations before sending them to Iran. Manufacturers from China sold goods bearing their marks in the Mediterranean area over 2,000 years ago and at one time about a thousand different Roman pottery marks were in use, including the FORTIS brand, which became so famous that it was copied and counterfeited. With the flourishing of trade from the Middle Ages onwards, the use of signs to distinguish the goods of merchants and manufacturers likewise expanded several hundred years ago. Their economic importance was still limited, however.

Trademarks started to play an important role with industrialization, and they have since become a key factor in the modern world of international trade and marketoriented economies. Industrialization and the growth of the system of the marketoriented economy allow competing manufacturers and traders to offer consumers a variety of goods in the same category. Often without any apparent differences for the consumer, they do generally differ in quality, price and other characteristics. Clearly consumers need to be given the guidance that will allow them to consider the alternatives and make their choice between the competing goods. Consequently, the goods must be named. The medium for naming goods on the market is precisely the trademark. Trademarks, also known as brand names, are part of everyday life.

The average person sees or hears hundreds of trademarks each day. Just as your own name identifies and distinguishes you, the main purpose of a trademark is to identify the source of a product and to distinguish that product from products coming from other sources. By enabling consumers to make their choice between the various goods available on the market, trademarks encourage their owners to maintain and improve the quality of the products sold under the trademark, in order to meet consumer expectations. Thus trademarks reward the manufacturer who constantly produces high-quality goods, and as a result they stimulate economic progress. Trademarks are powerful marketing tools. Now-a-days the intangibles—especially the brand names (trademarks) – have become the most valuable assets for an increasing

number of companies. In many cases the brand value exceeds the value of the physical assets of a company. As per Businessweek-Interbrand Corp., the top five brand names in the year 2004 were Coca-Cola ($67.394 billion), Microsoft ($61.372 billion), IBM ($53.791 billion), GE ($44.111 billion) and Intel ($33.499 billion). The figures in brackets indicate the brand values. The combined value of top 20 brands amounted to an astonishing $550 billion.

3.21 DEFINITIONS

"A trademark is any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors." This definition comprises two aspects, which are sometimes referred to as the different functions of the trademark, but which are, however, interdependent and for all practical purposes should always be looked at together.

In order to individualize a product for the consumer, the trademark must indicate its source. This does not mean that it must inform the consumer of the actual person who has manufactured the product or even the one who is trading in it. It is sufficient that the consumer can trust in a given enterprise, not necessarily known to him, being responsible for the product sold under the trademark.

The function of indicating the source as described above presupposes that the trademark distinguishes the goods of a given enterprise from those of other enterprises; only if it allows the consumer to distinguish a product sold under it from the goods of other enterprises offered on the market can the trademark fulfil this function. This shows that the distinguishing function and the function of indicating the source cannot really be separated. For practical purposes one can even simply rely on the distinguishing function of the trademark, and define it as *"A sign which serves to distinguish the goods of one enterprise from those of other enterprises."*

This is the approach chosen by Section 1(1)(a) of the WIPO Model Law for Developing Countries on Marks, Trade Names and Acts of Unfair Competition of 1967 ("The Model Law").

3.22 SIGNS WHICH MAY SERVE AS TRADEMARKS

It follows from the purpose of the trademark that virtually any sign that can serve to distinguish goods from other goods is capable of constituting a trademark. Trademark laws do not attempt to draw up an exhaustive list of signs admitted for registration. If examples are given, they may be a practical illustration of what can be registered, without being exhaustive.

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If there are to be limitations, they may be based on practical considerations only, such as the need for a workable register and the need for publication of the registered trademark. If we adhere strictly to the principle that the sign must serve to distinguish the goods of a given enterprise from those of others, the following types and categories of signs can be imagined:

- *Words:* This category includes company names, surnames, forenames, geographical names and any other words or sets of words, whether invented or not, and slogans.
- *Letters and numerals:* Examples are one or more letters, one or more numerals or any combination thereof.
- *Devices:* This category includes fancy devices, drawings and symbols and also two dimensional representations of goods or containers.
- Combinations of any of those listed above, including logotypes and labels.
- *Coloured marks:* This category includes words, devices and any combinations thereof in colour, as well as colour combinations and colour as such.
- *Three-dimensional signs:* A typical category of three-dimensional signs is the shape of the goods or their packaging. However, other three-dimensional signs such as the three-pointed Mercedes star can serve as a trademark.
- *Audible signs (Sound marks):* Two typical categories of sound marks can be distinguished, namely those that can be transcribed in musical notes or other symbols and others (*e.g.*, the cry of an animal).
- *Olfactory marks (Smell marks):* Imagine that a company sells its goods (*e.g.*, writing paper) with a certain fragrance and the consumer becomes accustomed to recognizing the goods by their smell.

The following examples may help you to know what trademarks (including service marks) are:

Words: 'Apple' for computers; Deutsche Bank for a bank,

Arbitrary or fanciful designations: Coca-Cola, Nikon, Sony, NIKE, Easy Jet.

Names: Food, Peugeot, Hilton (hotel)

Slogans: 'Fly me' for an airline;

Devices: The star for Mercedes Benz, the flying lady for Rolls Royce

Number: The 4711 cologne

Letters: GM, FIAT, VW, KLM

Pictures or symbols: Lacoste (small crocodile).

A TM is generally used to indicate an unregistered trademark and serves as an informal notification that there is a public claim as a trademark. An SM represents an unregistered service mark and is also an informal notification of a public claim as a service mark. The ® is a notice to advise the public that the mark is registered and its use provides legal benefits. Trademark notices, TM, SM and ®, if used in text, should directly follow the mark (either the word or logo). These symbols are often put in superscript (smaller, raised) form.

As mentioned before, countries may set limits on registrability for practical purposes. The majority of countries allow the registration only of signs that can be represented graphically, since only they can be physically registered and published in a trademark journal to inform the public of the registration of the trademark.

A number of countries allow the registration of three-dimensional trademarks, obliging the applicant either to submit a two-dimensional representation of the three dimensional sign (drawing, picture or any other representation which can be printed) or a description, or both. A sequence of notes can also be registered as a device mark, but that registration does not normally give protection to the actual musical phrases so expressed. What is protected is the sequence of notes, as registered, against the use of similar devices. Sound marks clearly can serve as trademarks, however, and the United States of America, for example, allows the registration of sound marks. In practical terms, this means that the sound must be recorded and the cassette submitted to the U.S. Patent and Trademark Office for registration.

3.23 HISTORY AND EVOLUTION OF COPYRIGHT

Modern copyright law has evolved from the historic struggles to balance the rights of the authors and publishers to economic benefit with the needs of the users to have access to information. "The legal theories underlying copyright differ greatly from country to country" (Sam Ricketson, The Berne Convention for the protection of literary and artistic works: 1886–1896). Whatever their justifications, copyright legislations all concur in their objectives and results, that is to provide creators with means of earning their living through the granting of exclusive rights. These rights are to be balanced by the public interest, which postulates that knowledge should be disseminated and not impeded. It is generally admitted that the exclusive rights that are granted to authors constitute an incentive that encourages them to devote time and effort to creative activities. Hence subsequent dissemination of works will occur to the greatest benefit of the public.

1. The first known Statute to give protection was the Act of Anne of 1709, which granted to the authors and their successors title protection for their books against their copying without their authorization. Beforehand, with the advent of the Gutenberg machine (printing press), privileges in the form of exclusive printing rights were given by *national authorities to printers* and publishers, who enjoyed the monopoly to undertake these activities. In England, for example, a royal charter was granted to the **Stationers' Company.** However the purpose was not to protect principally the rights of authors but to control certain types of religious or seditious literature.
2. Other national laws followed the Statute of Anne and were enacted in different countries.
3. Subsequently copyright protection was also granted to foreign authors through bilateral treaties. This protection was not comprehensive, *nor systematic, and it lacked* uniformity. There was a need for a multilateral treaty, offering minimum satisfactory standards or protection with a universal approach.
4. This need was met by the signing and ratification of the Berne Convention in 1886. The Berne Convention was the result of a *strong "lobbying" of* the ALAI (Association Littéraire et Artistique Internationale), an association regrouping authors and publishers and presided over by Victor Hugo. Three basic principles have been laid down in the Berne Convention:
   (a) Minimum standard of protection (content, scope and duration) for a work.
   (b) Foreign works are to be protected in each member state in the same manner as the protection available to works of *nationals.*
   (c) Protection is automatic – no need for registration or notice or deposit.
5. At a later stage, ***The 1952 Universal Copyright Convention*** was ratified as a compromise, mainly in order to make room for the US (not a member of Berne at that time) and allow it to join the international arena. The main différence with the Berne Convention is that in the latter the protection is automatic. Whereas in the Universal Convention if a country (such as the US), requires under its domestic law compliance with formalities (such as *deposit, registration,* notice, notarial certificates, payment of fees or manufacture or publication in that Contracting State) as a condition of copyright protection, it shall regard these requirements as satisfied with respect to published works of

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non nationals if they bear the symbol © accompanied by the name of the copyright proprietor and the year of first publication placed in such manner and location as to give reasonable notice of claim of copyright. (But the US has since joined the Berne Convention, and the Universal Convention has lost some of its interest).

6. The scope of copyright has been expanded further by the TRIPS Agreement so as to include computer programs (assimilated to literary works) as well as data bases, as subject matter of protection under copyright law.
7. Recent international developments also allow for works to be protected in the context of the Internet. The **WIPO Copyright Treaty (WCT),** concluded in 1996, addresses the challenges posed by today's digital technology, thus ensuring that copyright owners will be adequately and effectively protected when their works are disseminated through new technology and communications systems such as the Internet.

3.24 RIGHTS IN COPYRIGHT

There are two types of rights protected by copyright:

- **Economic rights,** which allow the owner to derive financial reward from the use and exploitation of the work; and
- **Moral rights,** which highlight the personal link existing between the author and the work.

Economic Rights

The owner of copyright in a protected work may use the work as he wishes—but not without regard to the legally recognized rights and interests of others—and may exclude others from using it without his authorization. Therefore, the rights bestowed by law on the owner of copyright in a protected work are frequently described as "exclusive rights" to authorize others to use the protected work (or not to authorize such use by others). What is meant by "using" a work protected by copyright? Most copyright laws define the acts in relation to a work which cannot be performed by persons other than the copyright owner or without his authorization. Such acts are the following:

Right of Reproduction and other Associated Rights

The right of the owner of copyright **to prevent others from making copies of his works is the most basic right** under copyright. Such right applies to reproductions made in any manner or form. For example, making of copies of a protected work is the act performed by a publisher who wishes to distribute copies of a text-based work to the public, whether

in the form of printed copies or in digital media such as CD-ROMs. Other examples include photocopying a book, downloading a computer program, printing a cartoon character on a T-shirt, making post cards of a painting, etc.

Such rights comprise also recording activities. Recording music and words of a song on CDs requires the producer of the phonogram to obtain authorization from the authors of both the music (composer) and the lyrics to reproduce their compositions on the phonogram. Under the laws of some countries, the maker of a sound recording must also obtain the authorization of the performers who play the music and who sing or recite the words.

Likewise recording on video-cassettes or DVDs of a play initially written to be performed live, for the purpose of being subsequently shown to a larger audience, is an act or reproduction that requires appropriate authorization from the author of the play. Therefore, the right to control the act of reproduction is the legal basis for many forms of exploitation of protected works.

Other rights are recognized in national laws in order to ensure that **the basic right of reproduction is respected.** For example, some laws include a right to authorize distribution of copies of works. **The right of distribution** is usually subject to exhaustion upon first sale or other transfer of ownership of a particular copy, which means that, after the first sale of that copy its purchaser may dispose of it without the copyright owner's further permission, for example, by giving it away or even by reselling it. Another right which is achieving wider and wider recognition, including in the TRIPS Agreement is the **right to authorize rental of copies of certain categories of works,** such as musical works included in phonograms, audiovisual works, and computer programs. The right of rental is justified because technological advances have made it very easy to copy these types of works; experience in some countries has shown that copies were made by customers of rental shops, and therefore, that the right to control rental practices was necessary in order to prevent violation of the copyright owner's right of reproduction. Finally, some copyright laws include **a right to control importation of copies** as a means of preventing erosion of the principle of territoriality of copyright; that is, the legitimate economic interests of the copyright owner would be endangered if he could not exercise the rights of reproduction and distribution on a territorial basis.

Translation and Adaptation Rights

The acts of translating or of adapting a work protected by copyright require the authorization of the copyright owner. "Translation" means the expression of a work in a language other than that of the original

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version. "Adaptation" is generally understood as the modification of a work from one type of work to another, for example adapting a novel so as to make a motion picture, or the modification of a work so as to make it suitable for different conditions of exploitation, for example adapting an instructional textbook originally prepared for higher education into an instructional textbook intended for students at a lower level. Likewise, a film producer who intends to produce a film based on a novel or a play should also obtain the authorization of the author to make an adaptation of the play or novel.

Bear in mind however that translations and adaptations are themselves works protected by copyright. Therefore, in order, for example, to reproduce and publish a translation or adaptation, the publisher must have the authorization both of the owner of the copyright in the original work and of the owner of copyright in the translation or adaptation.

Performing Rights

Another act requiring authorization is the ***act of public performance:*** Examples include performing plays or music live or reading books or poetry before an audience, playing recorded music or showing films or videos in public, delivering lectures in public, and letting a broadcast be seen or heard in public.

Broadcasting Rights

A major category of acts restricted by copyright consists of the acts of broadcasting works and of communicating works to the public by means of wires or cables. When a work is broadcast, a wireless signal is emitted into the air which can be received by any person, within range of the signal, who possesses the equipment (radio or television receiver) necessary to convert the signal into sounds or sounds and images.

When a work is communicated to the public by cable, a signal is diffused which can be received only by persons who possess such equipment linked to the cables used to diffuse the signal.

In principle, according to the Berne Convention for the Protection of Literary and Artistic Works, owners of copyright have the exclusive right of authorizing both the wireless broadcasting and the diffusion by cable of their works.

The broadcasting and diffusion by cable of works protected by copyright have given rise to new problems resulting from technological advances which may require a review by governments of their national copyright legislation. The advances include the use of space satellites to extend the range of wireless signals, the increasing possibilities of linking radio and television receivers to signals diffused by cable, and the increasing use of equipment able to record sound and visual images which are broadcast or diffused by cable.

Recent international developments also allow for works to be protected in the context of the Internet. The **WIPO Copyright Treaty (WCT)**, concluded in 1996, addresses the challenges posed by today's digital technology, thus ensuring that copyright owners will be adequately and effectively protected when their works are disseminated through new technology and communications systems such as the Internet.

Moral Rights

The Berne Convention requires member countries to grant to authors:

- the right to claim authorship of the work. That is basically the right of the creator to have his or her name mentioned as the author, in particular when the work is used.
- the right to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the work which would be prejudicial to the author's honour or reputation.

These rights are independent of the usual economic rights and they are to remain with the author even after he has transferred his economic rights. It follows that moral rights may be exercised even after the author has parted with his economic rights. Hence if an author of a novel has transferred his right to publish and distribute the novel to a publisher, the latter becomes the new owner of the publication rights, under the terms of the contract. However the author retains the right to claim authorship of the work, for example, or to object to non authorized modifications to the work.

3.25 TERM OF PROTECTION

Copyright is not a permanent right. The law protects copyright only for a specific period and after the expiry of that period, the work passes off into the public domain. A major point to remember is that this period is usually under international conventions a minimum of life time of an author +50 years. Once the term has expired, the work is in the "public domain". Thereafter, everybody will be free to use the work, without obtaining a specific authorization from the copyright owner.

However the Berne Convention allows for shorter terms of protection in some cases (for example the minimum term of protection for photographic works is 25 years from the making of the work). And as the term provided for in international conventions is a minimum standard to be respected by member countries, some national laws also provide for a longer period. For example, the 1992 Amendment to the Indian Copyright

Act of 1957 has raised this period from +50 (as it then was) to +60 (as it is now).

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3.26 LIMITATIONS AND EXCEPTIONS

Limitations on the rights of authors and other owners of copyright concerns particular acts of exploitation, normally requiring the authorization of the owner of rights, which may, under circumstances specified in the law, be done without authorization. These limitations take into account, social, educational and other public policy considerations. International Treaties, as well as national laws, allow to freely use limited portions of a work for certain purposes, such as news reporting, or making quotations in a way compatible with fair practices, or by way of illustration for teaching. There are two basic types of limitations in this category:

1. **Free uses**, which are acts of exploitation of works that may be carried out without authorization and without an obligation to compensate the owner of rights for the use.
2. **Non-voluntary licenses**, under which the acts of exploitation may be carried out without authorization, but with the obligation to compensate the owner of rights.

Examples of free uses include: the making of quotations from a protected work, provided that the source of the quotation, including the name of the author, is mentioned and that the extent of the quotation is compatible with fair practice; use of works by way of illustration for teaching purposes; and use of works for the purpose of news reporting. In some countries when the broadcasting of a work has been authorized, many national laws permit the broadcasting organization to make a temporary recording ("ephemeral recording") of the work for the purposes of broadcasting, even if no specific authorization of the act of recording has been given.

In respect of the right of reproduction, the Berne Convention contains also a general rule, rather than explicit detailed limitations: Article 9(2) provides that member States may provide for free reproduction in "certain special cases" where the acts do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author". Under this general exception, numerous laws contain provisions allowing reproduction of a work exclusively for the personal, private and non-commercial use of individuals. However, the ease and quality of this individual copying, made possible by audiotaping or videotaping and even more recent technological improvements, has led some countries to narrow the scope of such provisions. Certain legal systems allow copying but incorporate a mechanism for payments to be made to the owners of rights in order to compensate for the prejudice to their economic interests, through a fee imposed on sales of blank tapes and/or tape recorders.

As noted above, **non-voluntary licenses** allow use of works in certain circumstances without the authorization of the owner of rights, but , require that compensation be paid in respect of the use. Such licenses are called "non-voluntary" because they are authorized by the law and do not result from the exercise of the copyright owner's exclusive right to authorize particular acts. Non-voluntary licenses were usually created in circumstances where a new technology for the dissemination of works to the public had emerged, and where the national legislature feared that owners of rights would prevent the development of the new technology by refusing to authorize use of works. This was true in the Berne Convention, which recognized two forms of non-voluntary licenses: firstly, to allow the mechanical reproduction of musical works and secondly for broadcasting. It should be noted, however, that the justification for non-voluntary licenses is called increasingly into question, since effective alternatives now exist for making works available to the public based on authorizations given by the owners of rights, including in the form of collective administration of rights.

3.27 OWNERSHIP AND TRANSFER OF COPYRIGHT

The owner of copyright in a work is generally, at least in the first instance, the person who created the work, that is to say, the author of the work.

There can be exceptions to this general principle. Such exceptions are regulated by the national law. For example, the national law may provide that, when a work is created by an author who is employed for the purpose of creating that work, then the employer, not the author, is the owner of the copyright in the work. It is to be noted, however, that the "moral rights" always belong to the author of the work, whoever may be the owner of the copyright.

In many countries, copyright (with the exception of moral rights) may be assigned. This means that the owner of the copyright transfers it to another person or entity, who becomes the owner of the copyright. An assignment may apply to all economic rights or only to one (example the reproduction right) or a few of them (reproduction and translation rights, for example). It may be limited also to a territory (assignment of the right to publish in India) and to a period of time (assignment for the entire term of copyright or for a more limited term, say 20 years). The assignee (person to whom the right has been transferred) becomes the owner of the copyright, with respect to the right, (or rights), term and territory for which the assignment has been granted. For example,

if an Indian author "X" has assigned his right to reproduce his novel written in English, to a publisher "Y", and that the assignment is limited to a period of 20 years and to India, the ownership rights of publisher "Y" would be limited only to reproductions of the book that take place in India and for a term of 20 years. Anybody who reproduces the novel in India within the term of 20 years but without "Y"s authorization will have infringed his copyright. But a publication of the same novel that takes place outside India does not need "Y"s authorization, and will not therefore constitute a violation of the latter's copyright.

Assignments ought to be distinguished from licenses. Licensing means that the owner of the copyright remains the owner but authorizes or enables someone else to exercise all or some of his rights subject to *possible limitations. When such authorization or license* extends to the full period of copyright and when such authorization or license extends to all the rights (except, of course, the moral rights) protected by copyright, the licensee is, vis-à-vis third parties and for all practical purposes, in *the same position as an owner of copyright.*

3.28 INTELLECTUAL PROPERTY

We encounter intellectual property at every step of our lives today. The design on the bed sheet and the pillow covers, the bed and other items of furniture in the house, the cereals for break fast, the pasteurised milk in tetrapack, the soft drinks and their bottles, the television, the personal computer, the gas stove, the microwave, the refrigerator, the vehicles, the weighing machine, the books, the films, the music cassettes, the tiles, the paints, and practically everything we use is the product of human ingenuity, knowledge and skill, besides labour and capital and falls under some kind of intellectual property that had to be respected before the item could be lawfully manufactured.

3.29 THE CONCEPT OF INTELLECTUAL PROPERTY

The concept of Intellectual property (IP) will be understood better if we understand what is meant by the term property. To a lay person property means some material object belonging to a particular person. The concept of ownership is critical to the concept of property. Ownership means the right to possess, use and dispose of the property and exclude the others. If a society does not recognise ownership, it will have no concept of property. In the legal sense, property refers to the bundle of rights that the law confers on a person by virtue of the ownership and possession

of an object. However, a material object under one's possession may not amount to much as property if it does not become a resource to satisfy some human want or need. Man by exertion of his intellect, either in the form of ideas or technology, converts a natural resource into something of utility, making it an item of property.

Two factors significantly influence the value of an object as property. The first is scarcity, which refers to its availability in relation to the need. The scarcer is a thing in relation to the demand for it, the higher is its value. The second important factor influencing the value of an object is the knowledge of its use or uses. The higher the value of an object, the more zealously is it guarded as a 'property'.

What rights constitute the bundle of rights that are termed as property? These rights deal with various aspects of the relationship between persons and their property, such as: ownership and possession; use and enjoyment of the fruits of its application; exclusion of others from use and application of the property; and transfer of rights in the property. The property can relate to a tangible thing *e.g.*, land or buildings, or to an intangible thing *e.g.*, a copyright. In the former case they are referred to as tangible or corporeal property, in the latter case they are known as intangible or incorporeal property.

Tangible property has a big advantage over intangible property: the fact of possession of a physical object by the owner ensures that any other person is excluded from using it. It is not so with the creations of the mind, say, an invention or a book which can be reproduced otherwise. This brings us to the concept of intellectual property. It is simply the property created by the application of human mind. It is non-physical (intangible) and it derives its value from idea(s).

There is no uniform definition of IP. The domain of IP is expanding fast as knowledge and information become key drivers of techno-economic growth and of societal progress in general. IP is a dynamic area; as science and technology make rapid advances, and as competition for markets becomes ever more fierce, human ingenuity is throwing up ever new ideas and newer products. Newer areas are emerging with claims for recognition as IP. They have to be accommodated as IP either in one of the existing categories or in new categories that have to be created. Thus while copyright originally was concerned with works of literature and artistic works gradually its scope expanded to cover works of drama, music, photography, cinematography, audio-visual recordings, performances, broadcasts and now computer programmes.

Among the successful new categories to be recognised as entitled to the status of IP are: 'Geographical Indications' which combine in themselves appellations of origin and indication of source and accord special treatment to wines and spirits; lay out design (topography) of integrated circuits,

which has been recognised as an independent form of IP under the Agreement on Trade Related Aspects of the Intellectual Property Rights (TRIPS Agreement) of the World Trade Organisation (WTO). Genetic resources, and traditional knowledge and folklore have made strong claims for protection as IP. Galloping advances in the realm of internet and convergence may be the harbinger of new forms of IP.

3.30 DIFFERENT CATEGORIES OF IP INSTRUMENTS

IP has been generally divided into two main branches viz., (a) Industrial Property, and (b) Copyright. Industrial property consists of rights relating to inventions, trade marks, industrial designs and geographical indications. Copyright protects rights related to creation of human mind in the fields of literature, scientific, music, art and audio-visual works, etc. Related rights protect performances of performing artists, phonograms and broadcasts. Related rights and neighbouring rights are terms used interchangeably. The TRIPS Agreement of the WTO recognises seven categories of Intellectual Property Rights (IPRs), which had already been enshrined in various treaties administered by the World Intellectual Property Organization (WIPO) since the late 19th century:

- Copyright and Related Rights
- Trade marks, Trade names and Service marks
- Geographical Indications
- Industrial Designs
- Patents
- Layout Designs of Integrated Circuits
- Undisclosed Information.

3.31 RATIONALE BEHIND INTELLECTUAL PROPERTY

Just as one goes back to the concept of 'property' to appreciate better the meaning of intellectual property, one may look to the justifications advanced for protection of tangible property to appreciate the justification for IP. Within the capitalist system such justification comes from two angles: the labour justification and the personality justification. The labour justification was propounded by Locke who viewed the labour of an individual as belonging to the individual and when one takes from the State what Nature has provided to it – some goods' akin to 'commons' – and mixes one's labour with it, one creates property for one self. Labour adds value

to the goods and converts 'commons' into property. The creation of social value both by converting commons into goods and adding more value to goods by investment of labour deserves to be rewarded to encourage people to be innovative as also to perform better.

In moving from the tangible property to the intellectual property, both the views – rewarding innovation as well as rewarding value creation – have relevance. The society has to encourage people to strive to be innovative and come up with creative solutions to generate wealth and welfare as also to add value to existing goods and services. Locke's idea of occurrence of commons in abundance in the primitive stage is apt in the consideration of intellectual property because ideas are always around us in abundance; this is the public domain. The IPRs do not appropriate the 'public domain' – the 'commons' are no body's private property. The IP law takes care of it by ensuring that no protection is given to either the everyday ideas, or highly extraordinary ideas like advances in mathematics. The IP law takes care that nobody unduly appropriates 'public domain' by ensuring that the rights are available only for a limited period after which the intellectual creation comes to the public domain.

Here we draw attention to a rather subtle parallel between the fields of tangible property and the intangible intellectual property. In the field of tangible property the rights of slaves as generators of property were not recognised. Even now the labour of housewife fetches no remuneration, and remains unrecognised as generator of wealth. Similarly, in the realm of IP the traditional knowledge and folklore, is yet to gain solid recognition as IP, and enjoys no commensurate protection as the creation of knowledge, skills and ideas, developed and perfected by local communities over centuries. This only confirms the view that property laws, whether for the tangible property or the intellectual property reflect power relations in society.

The justification for IP from the 'personality' angle regards property as a mechanism of expression of one's persona. Hegel is the main proponent of this view: property is the embodiment of personality. Thus property is a very personal and private thing and needs to be protected. In the case of the intellectual property, however, this justification may apply in varying degrees to subject matters of different categories of IP. While products of art, music and literature and trade marks may reflect the personality of their creator to a remarkable degree, the inventions or engineering designs may not really support the personality thesis.

A major recognition for the personality justification of property is seen in the moral rights under the copyright law. These are deemed to be the inalienable rights of the author to safeguard the integrity of

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the work against any change that would damage the author's reputation or the message of the work.

Clearly a completely satisfactory rationale for intellectual property protection is not available either from the labour angle or the personality angle. Different categories of IP would appear to derive different degrees of justification from different angles. Patents and industrial designs would be better supported from the labour point of view; copyrights and trade marks would find better justification from the personality angle. The entire domain of the IP, however, is served better when both the views are taken together as justification for the protection of property.

Underlying Premises

From the foregoing discussions, it is seen that the IPRs are based on three underlying premises:

1. Creative activity culminating in IP can be increased by measures aimed to encourage it. Also, it will not be generated in economically adequate quantity for public use without economic incentives.
2. Grant of legal monopoly powers, even if for a limited period is the only way to ensure adequate economic benefits as just reward for the creation of IP.
3. The provisions of the global IP regime ensure just economic returns to the creation of IP while safeguarding the interest of other entrepreneurs and the society in general.

3.32 RIGHTS OF THE OWNER OF THE IP, OTHER INDIVIDUALS AND THE SOCIETY – STRIKING A BALANCE

It will be well to remember here that whatever be the justification for the protection of intellectual property, there can be no absolute rights in IP because all individual rights are subject to the recognition of, and respect for, the rights of other individuals and the rights of the society. It is the role of the State and the purpose of the law to harmonise conflicting claims and achieve a balance. Besides, the State, through the instrumentality of law, strives to reach definite goals in keeping with the aspirations of the society. The property rights are therefore generally tempered with considerations of distributive justice. Protection of individual property is important but it is equally important in a democratic polity that the State create conditions and necessary structures for people to have wide-spread access to opportunities. It is this balancing responsibility of the State which is reflected in the Indian Law: while private property is strongly respected and legally protected, it is no more a fundamental right.

In a competitive world while creativity and continuous innovation is absolutely necessary to remain on the scene, it is also equally important to ensure that one's ideas, products and designs are not copied without authorisation. Similarly one must learn how to acquire lawfully another persons ideas, products and designs for further reproduction and use in one's own business.

Essentially IPRs are defined in the negative and meant to stop others from copying or counterfeiting of the protected application, or expression of an idea without due permission. In the case of patents even a person who arrives at the same invention independently of the owner of the right is prohibited to exploit it without a licence from the owner of the right. In other forms of the IP *e.g.,* for copyright or trade mark, absolute monopoly of the owner of the right may be suitably diluted. However, it should be clear that the grant of IPRs is to be seen in the context of rights of others, which are not to be ignored, and the public interest which remains paramount. The Intellectual Property Rights also confer no privilege on the products of the person owning the right in trade.

In the field of intellectual property, the rights of the individual owner are sought to be balanced with the rights of others, including the wider public interest, by several means like limiting the period during which exclusive IPRs are available to a reasonable degree; making preservation of life, environment, peace, morality as paramount conditions in granting IPRs – if the IPR would have an adverse impact on any of these, it is not granted; providing for compulsory licensing, or even revocation of patent, under certain circumstances *e.g.,* if the owner abuses the right simply to block others with the result that the benefits of the IP do not flow to the public at reasonable cost, etc.

3.33 ENFORCEMENT OF IPRS

While most contracts lay down clearly and in detail the rights and obligations of contracting parties, any disputes that arise in connection with the contract can be resolved on the basis of provisions in the contract itself. What is different with IPR is the fact that it is aimed at excluding others from doing certain things as regards the IP even without the existence of a formal contract between them and the owner of the right. The effectiveness of IPRs is clearly dependent on how speedily they can be enforced with reasonable cost.

As requirement of space for storage of information and means and cost of copying tumble down with the advance of information and communication technologies, the scale and incidence of copying/reproduction have greatly increased. Piracy and counterfeiting are the scourge of the world trade.

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In books, films, music, computer programmes, pharmaceuticals and consumer goods, infringement of IPR on commercial scale is rampant.

While national laws provide legal remedies for violations of IPRs, the TRIPS Agreement lays down the provisions which must be included in the national IP laws and regulations of all member countries of the WTO to enable effective enforcement of IPRs. The remedies are meant to deter incidence of future infringement without harming legitimate trade, while safeguarding against the abuse of IPRs.

The TRIPS Agreement prescribes a number of requirements for a due process in IP law like fair and equitable procedures, not being unduly complicated or costly and not entailing unreasonable time limits or unwarranted delays, right to be heard and give evidence, right to written decision, judicial review, etc., including indemnification of defendant against abuse of enforcement procedures. The remedies that the Courts may grant can be both injunctive and compensatory relief. The defendant may be asked to deliver up the infringing material for destruction as a requirement of justice.

3.34 IP AND THE CONSTITUTION OF INDIA

The Constitution of India makes no specific mention of intellectual property. Property in the Constitution generally means tangible property. However, IP as a form of property can be put under Article 300A which deals with property and be entitled to a legal right. Experts have spotted possibilities of a conflict between the IP, specially the copyright, and the constitutionally guaranteed freedom of speech and expression. The Courts have zealously upheld this fundamental freedom. In a case of any restriction on speech and expression, the perspective of the rights of viewers and listeners, is likely to get precedence over the perspective of the rights of broadcasters. Any rights (monopolies) that undermine the right to freedom of speech and expression may face a challenge.

SUMMARY

- An ethics specialist is a full-fledged member of the board of director.
- Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses.
- Marketing ethics can be best understood in the light of its all-marketing mix-product, price, place, promotion and people.
- Price is a critical element of marketing mix which produces revenue.

- Accounting is the process by which any business keeps tract of its financial activities by recording its debits and credits and balancing its accounts.
- A trademark is any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors.
- *Words:* This category includes company names, surnames, forenames, geographical names and any other words or sets of words, whether invented or not, and slogans.
- **Economic rights,** which allow the owner to derive financial reward from the use and exploitation of the work.

REVIEW QUESTIONS

1. Elaborate the term ethics.
2. Explain in detail the meaning, nature and objective of ethics.
3. What is business ethics? What are the needs for business ethics?
4. "Good business ethics promotes good business." Explain the significance of business ethics in 21st century scenario.
5. Some marketers assume that marketing and ethics cannot be combined. Explain your views.
6. What do you mean by ethical product? How ethics is involved in its development stages?
7. What are the basic major reasons for which marketers follow marketing ethics?
8. Throw light on ethical advertising and ethical issues in promotional strategies.
9. Discuss on the ethical issues involved in finance and accounting.
10. "Finance would be impossible without ethics", comment on this statement.
11. What are the roles and responsibilities of the chief people officer?
12. What is world-class human resources management?
13. What is human resources strategy?
14. What is human resources metrics?
15. What is information technology governance?
16. What is relationship of enterprise and IT governance?
17. What is information technology utility service and value?

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18. What is a trademark? What kinds of signs can be registered as trademarks?
19. What does a trademark do? Discuss with the help of examples.
20. What are the requirements which a sign must fulfil in order to serve as a trademark?
21. Identify the three basic principles governing copyright as per the Berne Convention.
22. How has the TRIPS Agreement expanded the scope of copyright?
23. How to the new advances in space satellite technology pose problems for copyright protertion?
24. What are 'moral rihts'?
25. Discuss the evolutionary challenges being faced in the field of IP due to rapid advances in science and technology. How are these challenges being met?
26. How many categories of IPRs are recognised in the TRIPS Agreement? Briefly discuss each one of them.
27. Discuss the rationale behind the concept of intellectual property. What are the underlying premises of the global IP regime?
28. How does the present IP system strike a balance between the rights of an inventor and the rights of other individuals and the Society in general?

FURTHER READINGS

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UNIT 4 INTRODUCTION TO CORPORATE STRATEGY

★ STRUCTURE ★

4.0 Learning Objectives
4.1 Introduction
4.2 Concept and Nature of Corporate Strategy
4.3 Components of Corporate Strategy
4.4 Corporate
4.5 Functions of Corporate Strategy
4.6 Levels of Corporate Strategy
4.7 Kinds of Corporate Strategy
4.8 Schools of thought on Corporate Strategy Formation
4.9 Significance of Corporate Strategy
4.10 Limitations of Corporate Strategy
4.11 Strategies for Global Markets
4.12 Need for Global Expansion
4.13 Unique Competencies
4.14 Location Advantages
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4.16 Compulsions for Cost Reduction and Responsiveness
4.17 Responsiveness to Local Needs
4.18 Strategic Choice
4.19 Approaches to Global Entry
4.20 Information Technology
4.21 Information Technology Management
4.22 Competition
4.23 Understanding Competition
4.24 Competitor Learning
4.25 Competitor Learning Models
4.26 Competitor Strategies
4.27 Competitor Analysis: Capabilities and Competency

4.28 Analyzing Competitor's Signals
4.29 Competitive Focus
4.30 Total Quality Management
4.31 What is Quality?
4.32 Brand Building and Promotional Strategy
4.33 Brand Categories
4.34 Benchmarking
4.35 Importance and Role of Banchmarking: Merger and Acquisitions
4.36 Methodology for Benchmarking
4.37 Change Management and Benchmarking
4.38 Challenges Faced in Implementation of Benchmarking
4.39 Supply Chain Management
4.40 How does SCM Work?
4.41 Logistics-Marketing Interface
- *Summary*
- *Review Questions*
- *Further Readings*

4.0 LEARNING OBJECTIVES

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

- explain about the concept and nature of corporate strategy.
- describe the need for global expansion.
- know the world class information technology.
- describe competition in business performance.
- Discuss the market place strategy.
- know what is quality?
- describe all types of brand.
- know the importance and role of benchmarking.
- describe the SCM work.

4.1 INTRODUCTION

The twenty fifth National Business Conference sponsored by the Harvard Business School Association in 1955 made one of the earliest attempts to discuss the concept of strategy. In 1965, Ansoff published a book "Corporate Strategy" which was based on his experiences at the Lock heed Aircraft corporation. Chandler's historical study of the development

of some of the American enterprises proposed strategy as one of the most important variables in the study of organizations. From the literature on strategic management, it is evident that strategic planning refers to the management processes in organizations through which the future impact of change is determined and current decisions are made to reach a designed future.

4.2 CONCEPT AND NATURE OF CORPORATE STRATEGY

The word strategy is derived from the Greek word *"strategtia"* which was used first around 400 B.C. This connotes the art and science of directing military forces. In business parlance, there is no definite meaning assigned to strategy. A few definitions stated below may clarify the concept of corporate strategy:

Kenneth Andrews (1955), "The pattern of objectives, purpose, goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be". This definition refers to the business definition.

Igor Ansoff (1965) explained the concept of strategy as "the common thread among the organizations, activities and product markets, that defines the essential nature of business that the organization was or planned to be in future". The definition stressed on the commonality of approach that exists in diverse organizational activities.

Henry Mintzberg (1987) explains that "strategies are not always the outcome of rational planning. ....a pattern in a stream of decisions and actions. The definition makes a distinction between intended strategies and emergent strategies.

Ansoff (1984) "Basically a strategy is a set of decision making rules for the guidance of organizational behaviour. This definition has changed drastically what Ansoff had said earlier in 1965?

William Glueck defines the term strategy as "The unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through implementation process".

The definition lays stress on the following:

- It is a unified, comprehensive and integrated plan.
- Challenges of the environment are seen in the context of strategic advantage.
- Strategy ensures achievement of basic objectives through proper implementation process.

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From the definitions discussed above, we may identify the following elements:

- It is a plan or course of action or a set of decision rules.
- It is derived from its policies, objectives and goals.
- It is related to persue those activities which move an organization from its current position to a desired future state.
- It is concerned with the requisite resources to implement a plan.

The term "Corporate Strategy" is gaining importance in the era of privatization, globalization and liberalization. A few aspects regarding the nature of strategy are as follows:

- Corporate strategy is related mostly to external environment.
- Corporate strategy is being formulated at the higher level of management. At operational level, operational strategies are also formulated.
- Corporate strategy integrates three distinct and closely related activities in strategy making. The activities are strategic planning, strategic implementation and strategic evaluation and control.
- Corporate strategy is related to Long-term.
- It requires systems and norms for its efficient adoption in any organization.
- It provides overall framework for guiding enterprise thinking and action.
- It is concerned with a unified direction and efficient allocation of organization resources.
- Corporate strategy provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

4.3 COMPONENTS OF CORPORATE STRATEGY

The major components of corporate strategy are purpose and objectives, vector, competitive advantage, synergy, personal values and aspirations and social obligations. Ansoff has used the term "common thread" for the purpose. According to him, the common thread is a statement of relationship between present and future product market postures. In this section, the different components of corporate strategy are discussed.

Objectives

Corporate objectives should be stated in such a way so that they may provide a clear idea about the scope of the enterprise's business. Objectives give the direction for which action plan is formulated. Objectives are open-ended attributes denoting a future state. Objectives translate the purpose into goals. A few specific aspects about objectives are as follows: The objectives should:

- have time frame
- be attainable
- be challenging
- be understandable
- be measurable and controllable.

For having clarity in objectives, the business domain is defined specifically in terms of a product class, technology, customer group, market need or some other combination.

Vector

Corporate strategy has one more important component *i.e.,* Vector. Vector gives the directions within an industry and across industry boundaries which the firm proposes to pursue. If an organization has the objective to maximize sales, the series of decisions will be to enhance salesman's commission, release nationwide advertisement, introduce total quality management and introduce new product range. Vector signifies that a series of decisions are taken in the same direction to accomplish the objectives.

Competitive Advantage

Corporate strategy is relative by nature. In the formulation of corporate strategy, the management should isolate unique features of the organization. The steps to be taken must be competitively superior. While making plans, competitors may be ignored.

4.4 CORPORATE

Strategy

However, when we formulate corporate strategies, we cannot ignore competitors. If an organization does not look at competitive advantage, it cannot survive in a dynamic environment. This aspect builds internal strength of the organization and enhance the quality of corporate strategy.

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Synergy

Synergy means measurement of the firm's capability to take advantage of a new product market move. If decisions are made in the same direction to accomplish the objectives there will be synergic impacts. The corporate strategy will give the synergy benefit.

4.5 FUNCTIONS OF CORPORATE STRATEGY

Corporate strategy performs the following functions:

- It provides a dual approach to problem solving. Firstly, it exploits the most effective means to overcome difficulties and face competition. Secondly, it assists in the deployment of scarce resources among critical activities.
- It focuses attention upon changes in the organizational set up, administration of organizational process affecting behaviour and the development of effective leadership.
- It offers a technique to manage changes. The management is totally prepared to anticipate, respond and influence to look at changes. It also offers a different way of thinking.
- It furnishes the management with a perspective whereby, the latter gives equal importance to present and future opportunities.
- It provides the management with a mechanism to cope with highly complex environment characterized by diversity of cultural, social, political and competitive forces.

4.6 LEVELS OF CORPORATE STRATEGY

Corporate strategy may exist at three levels in an organization. They may be at corporate level, business level and operating level. In this section, a brief description of these three levels of strategy is given:

Corporate level strategy: It is believed that strategic decision making is the responsibility of top management. At the corporate level, the board of directors and chief executive officers are involved in strategy making. Corporate planners and consultants may also be involved. Mostly, corporate level strategies are futuristic, innovative and pervasive in nature. Decision like spreading the range of business interests, acquisitions, diversification, structural redesigning, mergers, takeovers, liquidations come under corporate level strategies.

Business level strategy: Strategic business unit (SBU) managers are involved at this level in taking strategic decisions. These strategies relate to a unit within an organization. At business level, the objectives are

formulated for SBUs and resources are allocated among functional areas. These strategies operate under the defined scope of corporate level strategy. Business level strategy is more specific and action oriented. It relates mainly with "how" aspect. The corporate level strategy is related to "what" aspect of corporate strategy.

Operating level strategy: This level of strategy is at the operating end of the organization. It is also known as functional level strategy. These decisions relate to training, investment in plant, advertising, sales promotion, total quality management, market segmentation etc. This decision is almost tactical. They deal with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within the functional area and coordination between them.

The following table shows distinctive characteristics of the three levels of strategy.

Table 4.1. Strategic decisions at different levels of corporate strategy.

Dimensions	Corporate	Levels Business	Operating Functional
1. Time Horizon	Long	Medium	Short
2. Type of Decision	Philosophical	Mixed	Operational
3. Risk Involved	High	Medium	Low
4. Impact	Signoficant	Major	Insignificant
5. Profit Potential	High	Medium	Low
6. Flexibility	High	Medium	Low
7. Adaptability	Poor	Medium	Significant
8. Innovations	Innovative	Mixed	Routine
9. Levels of Decision Making	Highest	Middle	Lowest

The strategies at different levels are interrelated to each other. The interrelationship between corporate strategy and functional strategies is shown in figure 4.1. Figure 4.2 shows the relationship between corporate, business and functional strategies. The example of first category can be that of Reliance Industries Ltd. It is a highly integrated company producing textile yarns and a variant of petro chemical products. The second figure may be related to Ashok Leyland Ltd., which is engaged in manufacturing and selling of heavy commercial vehicles. The SBU concept was considered in this case.

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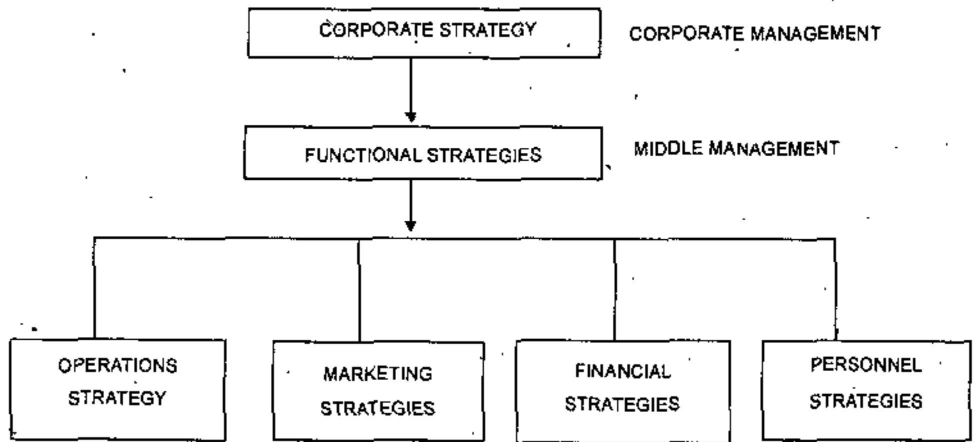

Figure 4.1. Corporate and functional Strategies in single SBU firms.

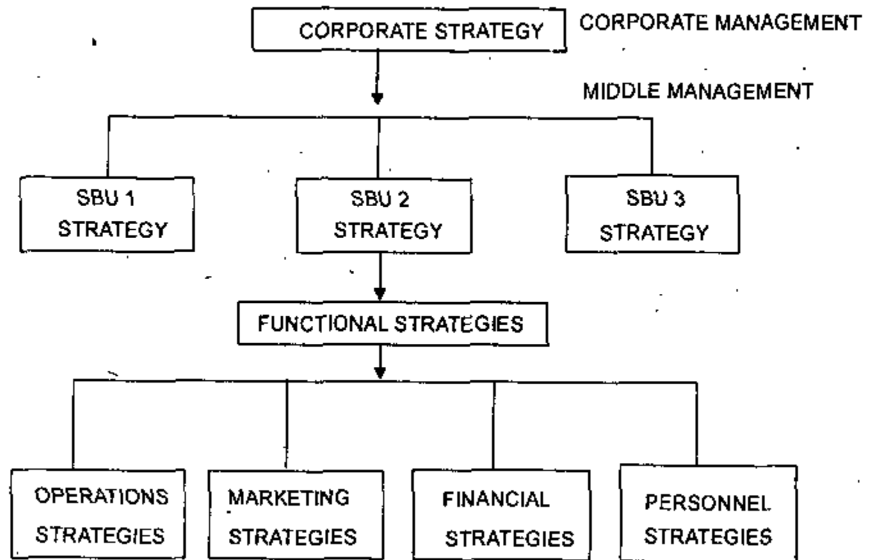

Figure 4.2. Corporate SBU and functional strategies in multiple SBU firms

4.7 KINDS OF CORPORATE STRATEGY

There are four grand strategic alternatives. They are stability, expansion, retrenchment and any combination of these three. These strategic alternatives are also called as grand strategies. A brief description about them are as follows:

(a) **Stability strategy:** It is adopted by an organization when it attempts to improve functional performance. They are further classified as follows:

- No change strategy
- Profit strategy
- Pause/Proceed with caution strategy.

(b) **Expansion strategy:** It is followed when an organization aims at high growth. They operate through:

- Concentration
- Integration
- Diversification
- Cooperation
- Internationalization.

Mergers, takeovers, Joint ventures and strategic alliances come under expansion through cooperation. International strategies are further classified into global strategy, transnational strategy, international strategy and multidomestic strategy.

(c) **Retrenchment strategy:** It is followed when an organization aims at a contraction of its activities. It is done through turnaround, divestment and liquidation in either of the following three modes:

- Compulsory winding up
- Voluntary winding up
- Winding up under supervision of the court.

(d) **Combination strategies:** They are followed when an organization adopts a combination of stability, expansion and retrenchment either at the same time in different businesses or at different times in the same business. The well known companies of the TTK group, based in Southern India, adopted a restructuring plan in the late 1980s involving following strategies.

- Merger of TTK chemicals with TTK pharma.
- TT industries and Textiles Ltd. Planned for expansion through joint venture.
- TTK Ltd., diversified into the field of non stick cooking utensils.
- TTK maps and publications expanded into the general publishing business after a turnaround.

Business strategies are of three types: Cost leadership (lower cost/broad target), differentiation (differentiation/broad target) and focus (lower cost or differentiation/narrow target).

4.8 SCHOOLS OF THOUGHT ON CORPORATE STRATEGY FORMATION

The subject of strategic management is in the midst of an evolutionary process. In this regard, several strands of thinking are emerging. They can be classified under the following groups:

- The prescriptive schools
- The descriptive schools
- The integrative schools.

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(a) **The prescriptive schools:** Under this category, three variations are found. The brief description about them are as follows:

- *The design school:* (Selzniek and Andrews) – Strategy is seen as something unique. The process of strategy formation is based on judgment and thinking.
- *The planning school:* (Ansoff) – Under this school, the strategy is seen as a plan divided into sub-strategies and programmes. The lead role in strategy formation is played by the planners.
- *The positioning school:* (Schendel-Hatten & Porter) – The process of strategy formation is analytical, systematic and deliberate. Under this school, strategy is seen as a set of planned generic positions chosen by a firm on the basis of an analysis of the competition and the industry in which they operate.

(b) **The descriptive schools:** In this category, six schools of thought are existing. Their brief description is as follows:

- *Entrepreneurial school* (Schumpeter & Cole):The process of strategy formation is intuitive, visionary and largely deliberate. Strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche.
- *Cognitive school* (Simon and March): This school perceives strategy formation as a mental process. The lead role is played by the thinker philosopher.
- *Learning school* (Weick, Quinn, Senge and Lindblom): This school perceives strategy formation as an emergent process. The process is informal and messy and the lead role is played by the learner.
- *Power school* (Allison & Astley): Under this school, strategy is seen as political and cooperative process or pattern. The process of stategy formation is messy, emergent and deliberate. This school perceives strategy formation as a negotiation process.
- *Cultural school* (Rhenman and Normann): Under this school, strategy is seen as a collective perspective. The process of strategy formation is ideological, constrained and deliberate.
- *Environmental school* (Hanan, Freeman and Pugh): The lead role in strategy formation is played by the environment as an

entity. This reactive process of strategy formation is passive and imposed and hence emergent.

(c) **The integrative school:** The major contributions to the configuration school are by Chandler, Miles and Snow. Under this school, strategy is viewed in relation to a specific context and thus could be in a form that corresponds to any process visualized by above nine schools. The strategy formation process is integrative, episodic and sequential.

4.9 SIGNIFICANCE OF CORPORATE STRATEGY

In the present day competitive environment, no business organization can dream of survival without formulating appropriate corporate strategy. As the environment is continuously changing, the need for corporate strategic framework is more specific. The following areas clearly show the importance of corporate strategy:

- Corporate strategy rationalises allocation of scarce resources.
- Corporate strategy motivates employees examples to shape their work in the context of shared corporate goals.
- Strategy assists management to meet unanticipated future changes.
- Organizational effectiveness is ensured through implementing and evaluating the strategy.
- Corporate strategy is a powerful tool to management to deal with the future which is uncertain and hazy in all respects.
- Corporate strategy improves the capability of management in coping with the volatile external environmental forces.
- Corporate strategy encourages the management to choose the best course of action to realize the objectives.
- Strategy planning system provides an objective basis for measuring performance.

4.10 LIMITATIONS OF CORPORATE STRATEGY

The corporate strategy has the following specific limitations:

- The process of strategy formulation is not an easy one. The process of forming corporate strategy is complex, cumbersome and complicated.
- Corporate strategies are useful for long range problems. They are not effective to overcome current exigencies.

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- The corporate strategy formulation process calls for considerable time, money and effort. Developing appropriate corporate strategy is not a simple and economical proposition. For financially weak companies, cost becomes a great hindrance.
- As future is uncertain and cannot be predicted accurately, the strategic planning system based on hazy and uncertain estimates is not exact.
- Implementation of corporate strategy is influenced by organizational factors, behaviourial factors and motivational factors. The gap between formulation and implementation of corporate strategy does not give desired results to the organization.

4.11 STRATEGIES FOR GLOBAL MARKETS

In this unit, we look at the strategies companies adopt when they expand outside their domestic marketplace and start to compete on a global scale. One alternative available for companies is to follow the same strategy worldwide, which is referred to as a global strategy. Selling the same product the same way in every nation allows a company to realize substantial cost savings from greater economies of scale. These cost savings can then be passed on to consumers in the form of lower prices, enabling firms to gain market share from competitors. However, to succeed in a new marketplace, it may have to customize its product offering to cater to the tastes and preferences of local consumers. While this may help, the shorter production runs associated with such a strategy sometimes raise the costs of competing and lower a firm's profit margins.

The decision to standardize or customize is a classic dilemma that confronts global companies. In this unit, we consider the different strategies that companies use to compete in the global marketplace and discuss the advantages and disadvantages of each. In this unit we also examine the different approaches that companies employ to enter foreign markets-including exporting, licensing, setting up a joint venture, and setting up a wholly owned subsidiary. The unit ends with a discussion of the benefits and costs of entering into strategic alliances with global competitors.

4.12 NEED FOR GLOBAL EXPANSION

Expanding globally allows companies to increase their profitability which is not possible to purely domestic enterprises. Companies that operate internationally can (i) earn a greater return from their unique competencies; (ii) realise location advantages by dispersing different value creation activities to those locations where they can be performed most efficiently;

and (iii) come down the experience curve faster than the competitors, thereby offering more competitive products to the consumers.

4.13 UNIQUE COMPETENCIES

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Unique competencies are defined as "Unique strengths that allow a company to achieve superior efficiency, quality, innovation, or customer responsiveness." Such strengths are typified by product offerings that other companies find difficult to match or imitate. Thus, unique competencies are vital for a company's competitive advantage. They enable a company to lower costs and also differentiate its product offerings. Companies with valuable distinctive competencies can often realise huge returns by applying those competencies and the products they produce to foreign markets, where indigenous competitors lack similar competencies and products.

4.14 LOCATION ADVANTAGES

Location advantages are those that occur from performing a value creation activity in the most advantageous location for that activity- in whichever part of the world that might be (transportation costs and trade barriers permitting). Locating a value creation activity in the most favourable location for that activity can have one of two effects. It can (i) lower the costs of value creation, helping the company achieve a low-cost position or (ii) enable a company to differentiate its product offering and charge a premium price. A company that realises location economies by dispersing each of its value creation activities to its optimal location should have a competitive advantage over a company that concentrates all its activities at a single location. It should be better able to differentiate its product offering and lower its cost structure than its single-location competitor. The basic assumption is that by dispersing its manufacturing and design activities, a firm will be able to establish a competitive advantage for itself in the global marketplace.

4.15 EXPERIENCE CURVE

Experience curve refers to the systematic decrease in production costs that occur over the life of a product. Learning effects and economies of scale lie behind the experience curve and moving down that curve allows a company to lower the costs. A company that moves down the experience curve more quickly will have a cost advantage over its competitors. Most of the sources of experience-based cost economies are generally found at the plant level. Dispersing the fixed costs of

building productive capacity over a large output reduces the cost of producing a product. Hence the answer to riding down the experience curve as rapidly as possible is to increase the accumulated volume produced by a plant as quickly as possible. Global markets are larger than domestic markets and, therefore, companies that serve a global market from a single location are likely to build up accumulated volume faster than companies that focus primarily on serving their home market or on serving multiple markets from multiple production locations.

4.16 COMPULSIONS FOR COST REDUCTION AND RESPONSIVENESS

Companies that compete globally generally face two types of competitive pressures: pressures for cost reductions and pressures to be locally responsive. International companies must cope with pressures for cost reductions. This is more so for industries producing commodity-type products such as bulk chemicals, petroleum, steel, sugar, etc. for which price is the main competitive weapon. Pressures for cost reductions are also severe in industries in which the competitors are based in low-cost locations. Liberalisation of the world trade environment is also expected to generally increase cost pressures because of greater international competition. Countering pressures for cost reductions requires that a company minimise its unit costs. To attain this goal, a company may have to base its value creating activities at the most favourable low-cost location anywhere in the world and offer a standardised product globally in order to ride down the experience curve as quickly as possible.

In contrast, responding to pressures to be locally responsive requires that a company differentiate its product offering and marketing strategy from country to country in an effort to cater to the different consumers' tastes and preferences, business practices, distribution channels, competitive conditions, and governmental policies. Since differentiation across countries can involve significant duplication and a lack of product standardisation, it may raise costs. Dealing with these conflicting and contradictory pressures is a difficult challenge for a company, mainly because being locally responsive tends to raise costs.

4.17 RESPONSIVENESS TO LOCAL NEEDS

Pressures for local responsiveness crop up due to differences in consumers' tastes and preferences, differences in infrastructure, differences in distribution channels, and the demands of the host government. Consumers' tastes and preferences differ significantly between countries due to historic or cultural reasons. Hence, the product and marketing messages have to be

customised to appeal to the tastes and preferences of local consumers in such cases. This typically requires entrusting the production and marketing decisions to local subsidiaries. Pressures for local responsiveness also crop up due to differences in infrastructure and/or traditional practices among countries, creating a need to customise products suitably. This may again require the delegation of manufacturing and production functions to local subsidiaries.

Differences in distribution channels among countries may require adopting different strategies. This may necessitate the delegation of marketing functions to national subsidiaries. Finally, economic and political demands imposed by host governments may necessitate a degree of local responsiveness. Generally, threats of protectionism, economic nationalism, and local content rules all dictate that international businesses manufacture locally. Pressures for local responsiveness restrict a firm from realizing full benefits from experience-curve effects and location advantages. In addition, pressures for local responsiveness imply that it may not be possible to transfer from one nation to another the skills and products associated with a company's distinctive competencies.

4.18 STRATEGIC CHOICE

Companies use four basic strategies to enter and compete in the international environment which are discussed below. Each of these strategies has its advantages and disadvantages.

International Strategy

Companies that pursue an international strategy create value by transferring valuable skills and products to foreign markets where local competitors lack those skills and products. Most international companies have created value by transferring differentiated product offerings developed at home to new markets overseas. Consequently, they tend to centralise product development functions in their home country. However, they also tend to establish manufacturing and marketing functions in each major country in which they do business. Although they may undertake some local customisation of product offering and marketing strategy, this tends to be limited in scope. Ultimately, in most international companies the head quarters retains tight control over marketing and product strategy.

An international strategy makes sense if a company has valuable unique competencies that local competitors in foreign markets lack and if the company faces relatively weak pressures for local responsiveness and cost reductions. In such situations, an international strategy can be very profitable. However, when pressures for local responsiveness are

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high, companies pursuing this strategy lose out to companies that place a greater emphasis on customising the product offering and market strategy to local conditions. Furthermore, because of the duplication of manufacturing facilities, companies that pursue an international strategy tend to incur high operating costs. Therefore, this strategy is often unsuitable for industries in which cost pressures are high.

Multidomestic Strategy

Companies pursuing a multidomestic strategy orient themselves toward achieving maximum local responsiveness. As with companies pursuing an international strategy, they tend to transfer skills and products developed at home to foreign markets. However, unlike international companies, multidomestic companies extensively customise both their product offering and their marketing strategy to different national environments. Consistent with this approach, they also tend to establish a complete set of activities– including production, marketing, and R&D– in each major national market in which they do business. As a result, they generally do not realise value from experience-curve effects and location advantages and, therefore, often have a high cost structure.

A multidomestic strategy makes most sense when there are high pressures for local responsiveness and low pressures for cost reductions. The high cost structure associated with the replication of production facilities makes this strategy inappropriate in industries in which cost pressures are intense. Another limitation of this strategy is that many multidomestic companies have developed into decentralised groupings in which each national subsidiary functions in a largely autonomous manner. As a result, after some time they begin to lose the ability to transfer the skills and products derived from distinctive competencies to their various national subsidiaries around the world.

Global Strategy

Companies that follow a global strategy focus on increasing profitability by reaping the benefits of cost reductions that come from experience-curve effects and location economies. That is, they are pursuing a low-cost strategy. The various activities such as production, marketing, and R&D of companies pursuing a global strategy are concentrated in a few favourable locations. Global companies do not tend to customise their product offering and marketing strategy to local conditions. This is because customization raises costs because it involves shorter production runs and the duplication of functions. Instead, global companies prefer to market a standardised product worldwide so that they can reap the maximum benefits from the economies of scale that lie behind the experience curve. This strategy makes sense in those cases in which there are strong

pressures for cost reductions and where demands for local responsiveness are minimal. These conditions exist in many industries manufacturing industrial goods.

Transnational Strategy

Companies whose operations are not confined to any country or a region and which pursue low cost and product differentiation at the same time are referred to as transnational companies. In essence, transnational companies operate on a global level while maintaining a high level of local responsiveness. A transnational strategy makes sense when a company faces high pressures for cost reductions and high pressures for local responsiveness. Companies that pursue a transnational strategy basically try to achieve low-cost and differentiation advantages simultaneously. Although this strategy looks attractive, in practice it is a difficult strategy to pursue. Pressures for local responsiveness and cost reductions place conflicting demands on a company. Local responsiveness raises costs, which clearly makes cost reductions difficult to achieve. Although a transnational strategy apparently offers the most advantages, it should be remembered that implementing it raises difficult organisational issues. The appropriateness of each strategy depends on the relative strength of pressures for cost reductions and for local responsiveness.

4.19 APPROACHES TO GLOBAL ENTRY

There are five main modes of entering a foreign market: exporting, licensing, franchising, entering into a joint venture with a host country company, and setting up a wholly owned subsidiary in the host country. Each entry mode has its advantages and disadvantages, and companies must weigh these carefully when deciding which mode to use.

Exporting

Many manufacturing companies begin their quest for global expansion as exporters and then switch to other modes. Exporting has two distinct advantages. First, it avoids the costs of establishing manufacturing facilities in the host country, which are often quite substantial. Second, by manufacturing the product in a centralised location and then exporting it to foreign markets, the company may be able to realise substantial economies of scale from its worldwide sales. For instance, many Indian companies in the floriculture business export their entire production to Europe to take advantage of the lower cost of production and the favourable climatic conditions in the country.

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On the contrary, there are a number of negative aspects to exporting. First, exporting from the company's home base may not be appropriate if there are low-cost manufacturing locations abroad. A second drawback is that high transport costs can make exporting uneconomical, particularly for bulk products. One way of overcoming this problem is to manufacture bulk products locally. This strategy allows a company to realise economies from large-scale production and at the same time minimise transport costs. Thus, many multinational companies manufacture their products from a base in a region and serve several countries in that regional base. Third, tariff barriers can make exporting uneconomical. In fact the threat of tariff barriers by a country may sometimes force a company to set up manufacturing facilities in that country. Finally, the practice of delegating marketing activities to a local agent among companies that are just beginning to export also poses risks since there is no guarantee that the agent will act in the company's best interest. Moreover, many foreign agents also deal with the products of competitors leading to divided loyalties. Therefore, company would perform better if it manages marketing on its own. One way to do it is to set up a wholly owned subsidiary in the host country to handle marketing locally. This can lead to huge cost advantages arising from manufacturing the product in a single location and controlling the marketing activities in the host country.

Licensing

Licensing is an arrangement by which a foreign licensee buys the rights to produce a company's product in the licensee's country for a negotiated fee. The licensee then invests major share of the capital required to commence the operations. The advantage of this arrangement is that the company need not bear the development costs and risks associated with launching foreign operations. Hence, licensing is a very attractive choice for companies that can not invest capital to develop overseas operations or for companies unwilling to take the risk of committing substantial financial resources in unfamiliar or politically volatile foreign environment. In high technology areas it is quite common for companies to provide know-how through licensing arrangements. For instance, Ranbaxy Laboratories Ltd., is seeking partners for out-licensing its urology, respiratory and anti-infectives technologies.

Licensing as a mode of entry into global arena has three serious drawbacks. First, companies do not reap the benefits of cost economies and location economies since licensees typically set up their own manufacturing facilities. And in cases where these economies are important, licensing may is not the best mode to go overseas.

Second, in a global marketplace it is necessary to coordinate all the operations across all the countries in order to use the profits earned in

one country to support competitive attack in another. Licensing severely restricts a company's ability to do this. A licensee will not let a multinational company to take its profits to support competitive moves of the company in other countries.

A third and a very major problem with licensing is the risk associated with licensing and sharing technological know-how with foreign companies. Technological know-how provides a formidable competitive advantage for many technology based companies and licensing its technology can quickly erode its competitive advantage.

Franchising

Franchising is a strategy employed mainly by service companies. The advantages of franchising are similar to those of licensing. The franchiser does not bear the development costs and risks of commencing the operations in a foreign market on its own since the franchisee typically assumes those costs and risks. Thus, a service company can build up a global presence quickly and at a low cost, using a franchising strategy. The disadvantages, however, are less prominent than in the case of licensing. Since franchising is a strategy used by service companies, a franchiser need not coordinate manufacturing activities in order to realise experience—curve effects and location advantages. McDonald Restaurants have entered India through the franchising and so is Kentucky Fried Chicken of US.

A major disadvantage of franchising is the lack of quality control. A basic notion of franchising arrangements is that the company's brand name conveys a message of quality to the consumers. The geographic distance from the franchisees and the large number of franchisees make it difficult for the franchiser to maintain quality and hence quality problems generally persevere. To overcome this handicap, companies set up a subsidiary, which is wholly owned or a joint venture with a foreign partner in each country and region in which they plan to operate. Closeness and the limited number of independent franchisees to be monitored reduce the problem of quality control. This type of arrangement is well accepted in franchising.

Joint Ventures

Joint venture with a foreign partner to enter foreign markets has been the vogue in recent times. A 50:50 venture is quite common, in which each party takes a 50 percent ownership stake and operating control is shared by a team consisting of managers from both parent companies. Some companies, however, prefer joint ventures in which they have a majority shareholding since this allows tighter control by the principal partner. As mentioned earlier, joint venture is a very mode of entry into foreign markets. In our country we have seen a spate of joint ventures in various sectors, particularly

in automobile and pharmaceutical sector. Honda Company's joint venture with Hero Cycles, Suzuki's JV with TVS, Suzuki with Maruti Udyog, Wipro with GE are the examples of a large number of JVs that have come up in recent years.

Joint ventures have a number of advantages, the first one being the benefit a company can derive from a local partner's knowledge of a host country's business ecosystem. Second, a company might gain by sharing high costs and risks associated with opening of a new market with a local partner. Finally, political considerations in some countries make joint ventures the only practical way of entering those markets.

Despite these advantages, joint ventures are difficult to establish and run because of two reasons. First, as in the case of licensing, a company risks losing control over its technology to its venture partner. To minimize this risk, the dominant company can seek a majority ownership stake in the joint venture to exercise greater control over its technology provided the foreign partner is willing to accept a minority ownership. The second disadvantage is that a joint venture does not give a company the tight control over its subsidiaries needed to realise experience- curve effects or location advantages or to engage in coordinated global attacks against its rivals.

Wholly Owned Subsidiary

A wholly owned subsidiary offers three advantages. First, when a company's competitive advantage is based on its technological superiority, a wholly owned subsidiary makes sense, since it reduces the company's risk of losing control over this critical aspect. For this reason, many high-tech companies prefer wholly owned subsidiaries to joint ventures or licensing arrangements. Second, a wholly owned subsidiary gives a company the kind of tight control over operations required for global coordination to take profits from one country to support competitive strategy in another. Finally, a wholly owned subsidiary may be the best choice if a company has to realise location advantages and experience-curve effects. The entry of a number of South Korean companies such as LG, Samsung, Hyundai into India by setting up subsidiaries without a local partner are examples of wholly owned subsidiaries.

4.20 INFORMATION TECHNOLOGY

The Information Technology (IT) vision must support an organization's mission and be closely aligned with its strategic business plan and the organization's budget. The vision also serves as a framework for IT decision making and support standards, and it facilitates the sharing of information across the organization.

Strategic management of information should include the definition and improvement of business practices that support the organization's mission. Management's goals are information sharing, information integration, and systems standardization on an organization-wide basis. The results can be improved customer support, reduced costs, or cost savings.

The lack of a company-wide focus on information management often leads to the development of and perpetuation of stovepipe (legacy) systems. These systems are characteristically developed to solve a specific problem, have a limited focus and functionality, and contain data that cannot be easily shared with other systems. Stovepipe systems represent a common barrier to successful corporate information management, and investment in such systems should be reduced drastically to facilitate information sharing across organizational boundaries. The goal is to provide information in a seamless manner, transparent to the end user or customer.

4.21 INFORMATION TECHNOLOGY MANAGEMENT

IT Strategy

The focus of IT management should be on strategic issues and not so much on technical issues. This is because the impact of IT is pervasive, affecting the entire organization. What IT management does and does not do directly affects the quality of data, quality of systems, and quality of decision making in the organization. In short, wrong data can lead to wrong decisions. Since IT function is so critical to the overall success and survival of an organization, senior executives should pay attention to IT governance and control structures and, despite the area's technical nature, should not delegate this important responsibility to lower-level managers.

Listening to Stakeholder Voices

IT management, as a developer and maintainer of computer systems for the company, should pay close attention in understanding and listening to the following "voices" to achieve organizational goals and to improve overall performance. When these "voices" are heard together, they bring attention to new perspectives and creative conflicts, forcing new thinking that leads to new solutions (*i.e.*, best-of-breed solutions). Listening to the collective voice of many stakeholders at once will have a greater impact than listening to one voice at a time in isolation, because the former requires a balanced approach after considering all party's concerns. For each content of each voice, a T-Column analysis should be prepared, with "what happens if I listen to this voice" in the left column (benefits)

and "what happens if I don't listen to this voice" in the right column (costs and risks). A comparative analysis of each content in each column will point to new problems requiring new solutions.

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- Voice of the customer (external customers such as suppliers, vendors, contractors, consultants, key customers, regulators, investors, creditors, the stock market, and media/press, and internal customers such as the board of directors, corporate management, and employees in other functional departments, such as manufacturing, marketing, finance, and human resources)
- Voice of the process (process flows, process variations, process delays and waste, and process inefficiencies)
- Voice of quality (TQM principles and practices; mistake-proofing; continuous improvement; cost of poor quality; quality assurance, quality control, quality audits, quality council, and quality circles; walkthroughs and desk reviews during system planning, design, programming, and testing)
- Voice of standards (business-application system design, programming, and testing standards; telecommunications and network standards; system security standards; data/information sharing and integration standards; Web-based standards; IT architecture standards; data/information privacy standards; and software piracy standards)
- Voice of partners (system development and maintenance contractors and consultants; electronic-commerce trading firms; outsourcing vendors; IT contingencyplan support vendors; insurance companies, supply chain members; financial institutions; shipping/transportation carriers; governmental agencies; and third-party computer service providers)
- Voice of regulators (federal, state, and local laws and regulations)
- Voice of competitors (press releases, Web site pressrooms, industry magazines; daily business newspapers, advertising magazines, industry trade shows, product demonstrations and promotions, direct mail, e-mail campaigns, copyright/trademark/patent news, business intelligence news, banner advertising, billboard and street advertising, product sponsorships, and online events and chat rooms)

IT Cycle Time Measues

Cycle time reduction in IT deals with reducing the system-initiation-to-system-implementation cycle time, with associated benefits such as increased productivity, improved utilization of human and machine resources, decreased costs, and improved customer service. The goal is to develop and implement

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new computer systems on time and on budget, all the time. To attain these benefits, organizations must:

- Eliminate or decrease non-value-added activities (*e.g.*, legacy [stovepipe] systems; fully paper-driven manual systems; transferring manually keyed data into computer systems; printing computer system data into forms for further manual processing; transaction-processing systems with a repeated sequence of computermanual- computer work steps instead of computer-to-computer work steps; manual processing of computer operations work; rework steps; waiting time; and delays at the interdepartmental and interdivisional boundaries and at intradepartmental work stations).
- Enhance or increase value-added activities (*e.g.*, seamless integration of back-end systems with front-end systems; data transfer points between internal systems and external systems; integration between the Internet, Intranet, and Extranet systems; data backup and archiving points; integration between computer systems, phone, facsimile, and voice response technologies; connection points between wired systems and wireless systems; decision-support systems for managers and executives; internal/external-customer access points to business application systems; IT project hold points, and IT-management decision points and control points).

  This requires having the right employees enjoying the right access to the right systems from anywhere and at anytime so that delays in IT systems and operations are decreased and data/information sharing is facilitated.

IT Metrics

IT management should develop and measure the following metrics to improve its overall performance:

- Percentage increase or decrease in IT's annual operating budget, expressed as a percentage of organization's sales, revenues, costs, or profits this year and compared to previous years
- Percentage increase or decrease in IT's workforce count, expressed as a percentage of organization's total workforce count this year and compared to previous years
- Percentage increase or decrease in IT employees' annual training, development, and education budget, expressed as a percentage of the organization's total budget for employees' annual training, development, and education, this year and compared to previous years.

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- Number of times a new business-application-system development project was completed on time in a given time period.
- Number of times a new business-application-system development project was completed on budget in a given time period.
- Ratio of a specific business application system's maintenance cost to the same system's development cost. As this ratio reaches 1.0, it is an indication of a functionally unstable system requiring redesign.
- Number of legacy systems that are still in operation.
- Total amount of fines and penalties paid, this year and compared to previous years, due to use of pirated software by employees. This includes both illegally copied software and software that violated licensing restrictions.
- Percentage increase or decrease in system uptime. The higher the system uptime, the greater system availability is for system users.
- Average time to grant, change, and remove system access privileges for an individual.
- Number of times the IT service level agreements (SLAs) with internal customers were met.
- Percentage increase or decrease in server utilization rates, this year and compared to previous years.
- Percentage increase or decrease in data storage utilization rates, this year and compared to previous years.
- Percentage decrease in the number of computer security breaches, this year and compared to previous years.
- Percentage of sensitive data protected from internal and external threats, this year and compared to previous years.
- Elapsed time between computer workload–forecasting periods. Delayed forecasting leads to inaccurate or inadequate capacity planning, which in turn causes poor system performance and degradation of services to system users.

4.22 COMPETITION

Productivity differs across individual, monopolistically competitive firms in each country. Firms face some initial uncertainty concerning their future productivity when making an irreversible investment to enter the domestic market. In addition to the sunken entry cost, firms face both fixed and per-unit export costs. Only a subset of relatively more productive firms export, while the remaining, less productive firms only serve their domestic market. This microeconomic structure endogenously determines

the extent of the traded sector and the composition of consumption baskets in both countries. Exogenous shocks to aggregate productivity, sunken entry costs, and trade costs induce firms to enter and exit both their domestic and export markets, thus altering the composition of consumption baskets across countries over time. The microeconomic features have important consequences for macroeconomic variables. Macroeconomic dynamics, in turn, feed back into firm level decisions, further altering the pattern of trade overtime.

The aggregate picture of world economic growth shows a remarkable diversity in growth performance, both geographically and across time. There exist high growth countries and low growth countries on the panorama of global economy. Some countries have grown rapidly over time while others have experienced growth spurts for a decade or two. What is the role of policy in this diversity? How can policy help transform this picture? However the increasing globalization tries to answer these questions in terms of catalyzing the economic growth and institutional innovations in the developing countries. Analysis of the success story of China, with an astonishing annual growth rate of 8.0 percent since the late 1970s, together with other well-known East Asian experiences that have taken place in countries such as South Korea and Taiwan, provide the basis to build some stylized facts about the take-off and the process of sustaining economic growth. On the other hand, the experience of liberalization, deregulation and privatization in countries such as Mexico, Argentina, Brazil, Colombia, Bolivia, and Peru have offered substantial evidence that allows us to question the standard formulae used to propel and maintain economic growth.

4.23 UNDERSTANDING COMPETITION

Competition may be defined as an object centered process in business performance. Competition may be semantically described as a combination of two distinct Latin words - *com* (together) and *petere* (to seek). Similarly conflict is derived from *com* (together) and *fligere* (to strike). This distinction between the quest and the blow, to strive or to strike seems precisely the pertinent one for clarity and efficiency in social science. Competition may be characterized as striving together to win the race not to destroy the other competitors from the point of view of the supporters of globalization. The local market competition is targeted towards the customers and the competitors strive to win the customer, temporarily or permanently. However, in business-to-business process, the competition may turn more tactical and strategic in order to outperform the rivals firms. In this way competition can be seen as regulated struggle. There are rules of economic competition and they do not generally include the destruction of competitors. The technology of marketing research is devoted to the difficult tasks of discovering

customer needs, and the sub-disciplines of consumer and organizational buying behaviour attempt to provide theoretical bases for the results. In this process the emphasis is on determination to win customers where competitors turn tactical towards brand or product positioning.

Emergence of virtual shopping, liberalization of economic policies in the developing countries all over the world competition has become like a traditional derby in which many companies participate for neck-to-neck race. In this business game the rules are subject to change without notice, the prize money may change in short notice, the route and finish line is also likely to change after the race begins, new entrants may join at any time during the race, the racers may form strong alliances, all creative strategies are allowed in the game and the governmental laws may change without notice and sometimes with retrospective effect. Hence, to win the race any company should acquire the strategies of outwitting, outmaneuvering and outperforming the competitors. In this process a company must understand thoroughly all the moves of the rival firms from various sources. The locales of the business rivalry have to be spotted to assess their strengths. An intriguing aspect of the marketplace is that the nature of competition can change over time. A technology, company, or product does not need to remain prey to another forever. Competitive roles can be radically altered with technological advances or with the right marketing decisions. External light meters, used for accurate diaphragm and speed setting on photographic cameras, enjoyed a stable, symbiotic (win–win) relationship with cameras for decades. As camera sales grew, so did light-meter sales. But eventually, technological developments enabled camera companies to incorporate light meters into their own boxes. Soon, the whole light-meter industry became prey to the camera industry. Sales of external light meters diminished while sales of cameras enjoyed a boost, and the relationship passed from win–win to *predator–prey*. Table 4.2 exhibits the competitors' arena, which has to be studied comprehensively, and strategies to be build accordingly.

Table 4.2. Possible Arena of Business Rivalry.

Business factors	Customer locate	Geography	Channels	Institutions and patrons
• Supply Chain • Promotion • Investment	• Market Place • Segments • Individual	• Spread • Regional	• C&F • Agents • Retailers • Wholesalers • Franchisees • Mailers	• Government agencies • Co-operatives

The access to the infrastructure, raw material, the process, supplies and the other vital business factors is the most vulnerable to the competition. The competing firms pay more attention to the sources of factors, quality thereof, cost and management of the factors in order to prove better over each other. Customer, the end user, is the ultimate target of competitor for building aggressive and defensive strategies in business. The competing firms try to attract the customers by various means to polarize business and earn confidence in the market place. It is necessary for the successful business companies to look for such a place of business that provides them more location advantage and hold the customers for their goods and services. The business cordoning or securing the trade boundaries is an essential decision to be taken for building competitive strategies to attack rivals across regions. Even small business company can compete globally with the firms of all sizes through the Internet. The distribution channels, franchisees, carrying and forwarding agents, retailers and mailers with value added services represent an increasingly intense business rivalry or competition in all markets or competitive domains. Many firms like Godrej (Diversified Products), Proctor and Gamble (Consumer Goods), Compaq (Computers) reward their managers handsomely for winning the business battles in their channel wars. In succeeding to the market competition, the institutional and political patronage provides long run support to the companies.

The wining in product, channel and factor market place in many instances may not last long in building relationships with the customers. Many business firms have found themselves outmaneuvered in various functional aspects of business by the adept actions of rivals in the institutional arena. An intriguing aspect of the marketplace is that the nature of competition can change over time. A technology, company, or product does not need to remain prey to another forever. Competitive roles can be radically altered with technological advances or with the right marketing decisions. The need of the hour is to apply scientific methods to manage competition. Only then could modern corporations withstand the pressures of intense competition of a dynamic business era. The paper examines issues involved in the scientific approach of managing competition Struggle between fountain pens and ballpoint pens had a different ending. The substitution of ballpoint pens for fountain pens as writing instruments went through three distinct stages.

Before the appearance of ballpoint pens, fountain pen sales grew undisturbed to fill the writing- instrument market. They were following an S-shaped curve when the ballpoint technology appeared in 1951. As ballpoint sales picked up, those of fountain pens declined in the period 1951 to 1973. Fountain pens staged a counterattack by radically dropping prices. But that effort failed. Fountain pens kept losing market share

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and embarked on an extinction course. By 1973, their average price had dropped to as low as 72 cents, to no avail.

Eventually, however, the prices of fountain pens began rising. The fountain pen underwent what Darwin would have described as a character displacement to the luxury niche of the executive pen market. In the early 1970s, the strategy of fountain pens became a retreat into non-competition. By 1988, the price of some fountain pens in the United States had climbed to $400. The Volterra-Lotka model indicates that today the two species no longer interact but each follows a simple S-shaped growth pattern. As a consequence, fountain pens have secured a healthy and profitable market niche. Had they persisted in their competition with ballpoint pens, they would have perished.

Many factors determine the nature of competition, including not only rivals, but also the economics of particular industries, new entrants, the bargaining power of customers and suppliers, and the threat of substitute services or products. A strategic plan of action based on this might include positioning the company so that its capabilities provide the best defense against the competitive forces, influencing the balance of forces through strategic moves and anticipating shifts in the factors underlying competitive forces. In outwitting the competitors the companies must detect the changes in the strategy game in reference to the market players' status in gaining more knowledge, networking, entrepreneurship and increasing ambitions. The changes that are taking place in all the arenas as discussed in Table 4.2 have to be considered. The driving forces of competing firms, their organization and micro-economic environment need to be studied carefully by the company planning to overtake competitors in the business. Further in the process of winning the battle of rivals it would be helpful for a company to understand the changing stakes of the competitors and the forces after such developments. A company can outmaneuver the rival by being more skillful in particular tasks and reshaping the stakes in one or more business arenas. Outmaneuvering the rivals is the core of changing the rules of market place. The strategy for outperforming the competitor is largely based on two basic issues—the performance parameters and assessment criteria of the performance.

However the critical parameters may include probe for the following information as *who is*:

- Creating new customer needs that do not exist.
- Developing and establishing the new attributes of the product.
- Establishing new channels to reach all the existing and potential customers.
- Reinventing stakes to make others confined to play catch-up roles.
- Creating new capabilities as the source of new products and customer needs.

- Creating knowledge base for driving the capabilities for the new goods and services.
- Establishing new relationships with the channels, institutions and customers.
- Winning or loosing in the business battle.
- Establishing new chain of customer delight.
- Leading the product.
- Dominating the price-value relationship.

Parameters and assessments of the above actions would help in focusing both the thinking and strategy building process for sailing through the competition successfully. The current and future strategy of competitors must be considered by any company planning to outwit, outmaneuver and outperform them.

4.24 COMPETITOR LEARNING

There are many ways of competitor learning process. Comparative learning occurs when two or more competitors are compared and contrasted. It especially entails analysis of outputs which is necessary frequently to compare and contrast the projections of two or more competitors' future strategies as a means of anticipating which competitors are likely to do what and when. It is also often necessary to compare and contrast how competitors are responding to the focal firm's own initiatives. The process of descriptive learning of competitors involves learning about the individual competitors at the basic level in reference to capturing the processing data and information about the competitor to identify the facts and features. This learning tool supports the inputs to comparative learning. Many of the concepts and analysis tools such as marketplace strategic activity, value chain, assumptions, resources, and competency facilitate comparisons across two or more competitors.

The comparative learning process generates insights and inferences that cannot be derived by examining individual competitors in isolation. Learning is a cognitive process as customer decisions make sense of the world around them. They select and array the information, permeate data with meaning, draw inferences from incomplete data and portray the results. Thus, the wide variety of analysis tools and techniques presented throughout the remaining chapters are intended as aids to interpretation. Learning also is a collective process though transforming individual learning into organizational learning is a difficult task. Learning truly occurs when individuals share their knowledge, challenge each other, and reflect on each other's judgments and assessments.

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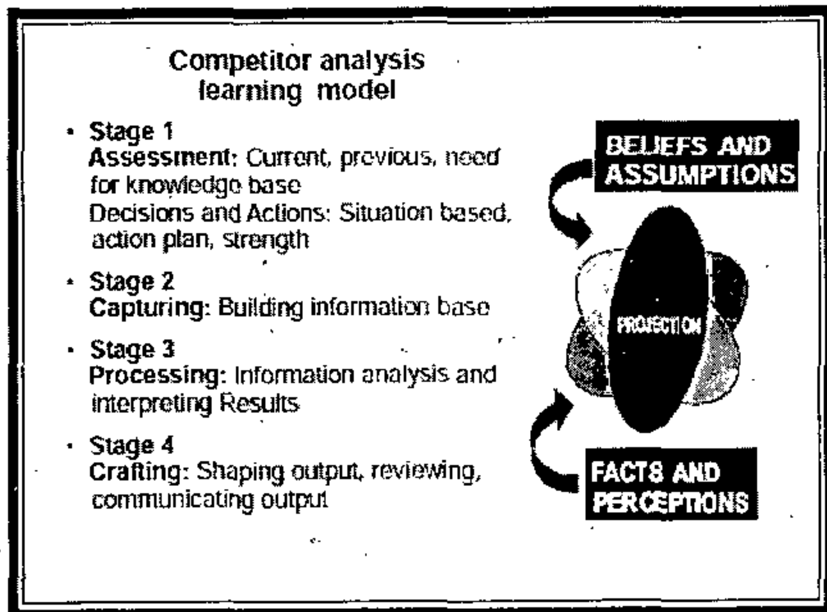

Figure 4.3. Competitor analysis learning model

Understanding and analyzing each move of the competitor and using the output to developing counter strategy may be defined as the process of the competitor learning. This integrates the process of knowledge management through four stages as exhibited in the Figure 4.3. The company must make assessment of the existing needs, historical perspectives and develop the knowledge bank accordingly to help in decision making and scheduling the actions. The actions need to be taken by the company as required to project the facts and beliefs more effectively among the customers. The learning exercises may take place with individuals and groups who are engaged in decision-making. It is necessary to build-up strong, comprehensive and reliable database for capturing the activities of any business rival or competitor. Data is thus the basic input for competitor learning. In the process of capturing the competitor's moves the first task is to determine the data requirement and issue clear instructions he data base managers (DBM). The DBMs have to first identify the data sources, prepare checklist of information, collect data and submit it for analysis to the competent department or agency. The information collection is a very vulnerable issue and there may be many companies looking for the similar sets of information. Hence taking the opportunity first is always advantageous in the business.

The major task in processing the data is proper interpretation of results. There should be no biases and the results of the analysis should be able to detect some signals. The crafting of the information outputs is one of the important tasks which should give a shape to the output. The outputs are crafted to inform the decision makers and influence decision-making in the interest of the business.

Two core concepts of the competitor learning process are *efficient and effective* learning. The former refers to the learning input-output ratio. The input for the learning process is the competitor data and the output includes the change in knowledge level. The effective competitor learning addresses the output-decision relationship. In the process of competitor learning both efficiency and effectiveness need attention and require data, information and intelligence. Data constitute the basic input in the process of competitor learning. The data about any competitor may be put into three broad categories *viz.* behavioral pattern of the competitor, statements pertaining to the competitor, and organization change. The individual *actions of competitors or the patterns displayed* thereof are referred as the competitor behavior. The actions may be *analyzed in reference* to the market place strategy, customer relationship, brand management, sales and promotion of the products and services in the region. The statements of the competitors may be of various types such as the performance data, announcements, annual reports and the like. These constitute formal business communications made in the public periodically. The informal communications on the other hand are largely oral comments delivered by the channels, competitors' personnel and high profile rivals, though these statements are not authentic.

4.25 COMPETITOR LEARNING MODELS

It is essential that any company planning for competitive strategies should possess high learning skills in order to collect right information, analyze and interpret the results. The organization's knowledge about competitor and his moves broadly consists of perceptions, beliefs, assumptions and projections. Learning as the detection and correction process has varied implications for outwitting, outmaneuvering and outperforming competitors. The Figure 4.4 exhibits the single and double loop learning methods. The single loop learning may occur when the organization detects and corrects the know edge base without changing thrust on its strategies and actions. This is closed and confined learning method that do not allow reviewing or re-engineering the information spool. On the contrary, in the double loop learning process the organizational knowledge, information base and strategies in addition to its action plans are open for review and re-engineering *in the long-term interest* of the company.

There are three levels of competitor analysis - a system, an individual competitor and specific components of the competitor. The framework of competitor analysis includes the infrastructure and culture of an organization and value chain, networks and relationships representing

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the environment of the company. The entire analysis must focus on the current strategy of the competitor firm and its future steps. Besides the assumptions in business risks and prospects, it is also important to analyze the assets, capabilities, competence levels and technology usage of the competing firm. In all these exercises, the data must be reliable and comprehensive to make the competitor learning process stronger. Signals are perhaps the most important core concept in competitor learning.

A signal is an inference drawn by an individual in some specific context from the data and information about a competitor pertaining to the past, current and future strategies. The core components of the signal are indicators of the data and information. The inferences on signals received from the competitors on the basis of data need to be drawn to derive strategies for implementation.

A competitor signal is difficult to interpret and assess, if there is no proper database and the indicators are not relevant. The ambiguity about indicators may occur by words, actions, unclear strategies of the organization and biased information. The signals from the competitor may be direct or indirect. The analyst needs logical aptitude and strong reasoning to use the indirect signals appropriately for building strategies. The competitors send signal in the market about all the vital indicators of business like product, services, advertisement, prices, channels *etc.*, in a distorted fashion to weaken the business rivals. It is thus, necessary to capture the signals well in time and draw inferences. Late attention to the signal may lead to detection lag, caused due to the extended length of time between the availability of the information and its capture by the analyst. The competitors' signaling is very volatile and needs to be attended immediately to avoid any time lag or delay in drawing the inferences out of the available information.

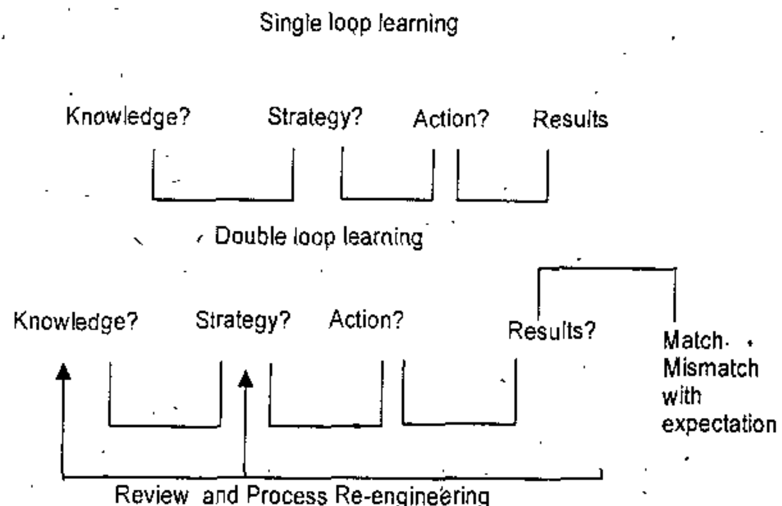

Figure 4.4. Competitor learning models

Knowledge is an important component in the process of competitor learning.

Knowledge in the business activities is an outcome of intellectual efforts performed by the individuals with an objective of providing vital information on the move of the rivals in the market. There are some companies who provide information services as consultancy. However, the large companies, which have narrow objective of only production, have realized the importance of building knowledge base for sustaining competition and heading towards *continuous growth. The business players of product and services need* to replenish their knowledge continuously on the consumer behavior, competitor moves, technology development and future market dynamics. The linkages outside the company in the form of alliances, informal business partnership, and networking also are contemporary sources to the knowledge on the competitor learning. It may be observed on the present business platforms that the large corporations and MNCs have been acting with ever greater ingenuity by crafting linkages with rivals, channels, customers, suppliers and technology sources. The competing television channels may be one of the examples of such strategies, which develop variety of contacts for getting information from the customers and the reaction of the rivals in the market. The customer behavior towards the products and services of any company is analyzed on the basis of the perceptual dimensions on the qualitative parameters.

4.26 COMPETITOR STRATEGIES

Companies engaged in competitive business should aim at conducting the competitor analysis to build competitive advantage and this cannot be done in isolation from the market and the rest of the industry, because being better than a competitor will not guarantee success, if what is offered gives little value to the customer. Hence, it should be understood by the firms that any inferences which might be drawn from competitor analysis must be considered in conjunction with the other environmental factors. Every company has strategic options, although this does not mean that all options are sensible for every company. It may choose to operate within the rules of the industry, without major change to what it offers. The options may include a stronger focus on a niche strategy, seeking to identify and exploit segments where its products would have an advantage, or what might be termed improvement strategies. A competing firm may be attacked various ways by a new and prospecting business firm in a given territory in order to optimize the market advantage. The most effective way for a firm to attack may be through implementing a creative and entrepreneurial strategy on a sound knowledge analysis in view of the changes the competitive arena. Alternatively, a firm may attempt to pre-empt a competitor by getting into market first with a new product, in an area of strategic

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importance. However attacking the strategy of a competitor can leave the firm in a weaker position.

The prospecting firm may also attack on the competitor's alliance instead of direct attack on the target. An example of this was the acquisition of Rover by BMW. There were undoubtedly many reasons for this acquisition, but one of them was to cause Honda to withdraw from the alliance it had operated for many years with Rover, and its predecessor British Leyland. Similar patterns of alliances changing allegiance have been observed in the airlines industry. The basic rule of any attack strategy is to know the industry, the market, and the competitors being attacked. If the weak points of the competitors are known, and their likely reactions predicted, the attacker is more likely to arrive at a successful strategy. It is this rational analysis which enables a decision to be made about whether the rewards of success outweigh the costs, and whether the chances of success are high enough to justify the move.

In a competitive business arena the competitors as players may be categorized as hard and soft players. The hard competitive players in business single-mindedly pursue competitive advantage and the benefits it includes a leading market share, great margins, and rapid growth. They pick their shots, seek out competitive encounters, set the pace of innovation, and test the edges of the possible success of their products and services in the market. Soft players, by contrast, may look good, but they are not intensely serious about winning. They do not accept that you must sometimes hurt your rivals, and risk being hurt, to get what you want. The commonly employed methods in taking up the hard competitor strategies in bursts of ruthless intensity may include devastating rivals' profit sanctuaries, deceive the competition, unleash massive and overwhelming force, and raise competitors' costs The soft players do not play to win; they just participate in the business and try to survive. This approach envelops the issues such as leadership, corporate culture, knowledge management, talent management, and employee empowerment for analysis to the soft players. Every firm is risk averse in facing the business competition as it is a fact of business life, but many companies fail to manage it well. Good risk management not only protects companies from adverse risk but also confers a competitive advantage, enabling them to be more entrepreneurial and, in the end, to make bigger profits. Companies should clearly articulate their risk strategies, understand the risks they are taking, and build an effective risk-management organization that helps foster a responsible risk culture.

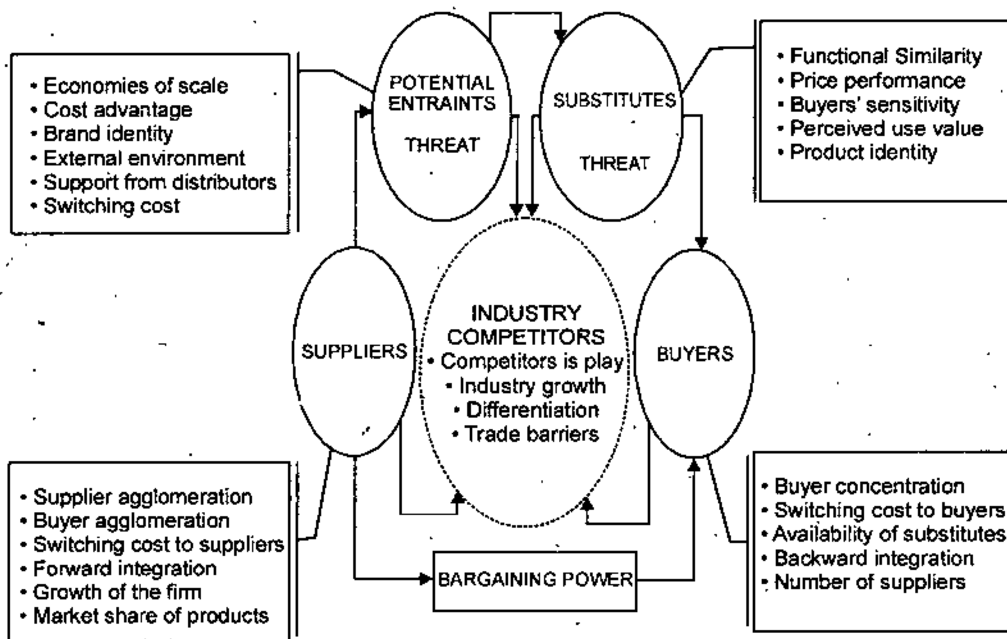

Figure 4.5. Competitive strategy: network of market forces

Changing aircraft technology, big capital investments and the shifting priorities of governments have repeatedly forced airline operators to scramble to stay air borne. Consequently, a swing of new low-cost airlines is attacking big incumbent network carriers, some of whom will probably not survive. Such aviation companies sparked meteoric growth by exploiting latent demand for cheap travel, but they can't create profitable markets indefinitely. Major sources of traffic in Northern and Central Europe will soon be saturated. However, interestingly, the differences go deeper as America's budget airlines are starting to move up-market in service quality, whereas Europe's give every impression of moving relentlessly down-market. They emphasize dirt-cheap tickets; yet they are also expanding as they try to fend off start-up competitors. The competition from low-cost carriers has increased the customer's price sensitivity, undermining the ability of the incumbents to charge a premium not only on routes where they compete with these carriers. In order to cope, scheduled carriers must choose their battles carefully and revise their business designs. The adaptation might be subtle for stronger players; for others, it might resemble the radical transformation *Aer Lingus* has begun. Most of the expansion in America has come from *JetBlue, Frontier and AirTran; Southwest*, which accounts for nearly half the sector, has been obliged by the wider air-travel recession to check its expansion, although it is now returning to its former growth path of 10% a year. While in Europe after the liberalization of Europe's domestic airline market was completed in 1997, *Ryanair and EasyJet*, the pioneers, explicitly and expertly mimicked American budget airlines such as Southwest and ValuJet (now *AirTran*). The Indian

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skies are also experiencing the boom of low-cost airlines like *Air Deccan.* The low-cost carriers find success by stimulating and exploiting pent-up demand for cheap travel. Their entry into a market brings out people who would otherwise travel by train or car, if at all. In 2002, low-cost carriers and network carriers went head-to-head on 80 routes in Europe and America; since then, the former have increased their capacity on those routes by 15 percent, while the incumbents' capacity has shrunk by 4 percent. The biggest difference between low-cost carriers in America and Europe is that they have existed in Europe for less than ten years. In many markets, growth has stagnated after an initial spurt in demand. On these more established routes, growth for low-cost carriers (as for incumbents) now ranges from 4 to 6 percent.

4.27 COMPETITOR ANALYSIS: CAPABILITIES AND COMPETENCY

Degree of competition in a market is largely affected by the moves and countermoves of various firms activity participating in the market. Generally, it begins with a firm trying to achieve a favorable position by pursuing appropriate strategies as what is advantageous for this firm may be harmful to rival firms and in response the rival firms may move counter strategies to protect their interests. The competition attracts the firms seeking to capitalize on an available business opportunity. As the number of firms get involved in the process of sharing the pie, the degree of competition increases.

When the entire market represents one large homogeneous unit, the intensity of competition is much greater than segmented market. However, if a market is not appropriate for segmentation, firms may compete to serve it homogeneously, thus intensifying competition. Hence, in either of the market situation the intensity of competition is unavoidable for the participating firms. Understanding the capabilities and competency (C&C) of the rival and developing the company's own are the most important tasks in sailing through the marketing competition. This is essential for winning the market place in future, sustain and get the circumstantial leverage. The capabilities in general address as how well an organization performs or executes some of the vital activities like, customer relationship management, services, supply chain management etc. The competency may be stated as what an organization does well across the region and subsidiary units or customer segments. In all, the C&C involve action, the focus and emphasis on what the competitor does in the market to outperform his business rival. The common competence is that can be judged in reference to the competitor are as following:

- Quick movement of the products to the marketplace from R&D unit.

- Faster response to the market opportunities.
- Providing convincing and unique solutions to the customer problems.
- Hire, train and retain best personnel.
- Develop, nurture and extend the best relationship with customers and alliance partners.

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There are four key tasks in the management of core competency which include selecting core competency, building core competency, deploying core competency, and protecting core competency. Companies are likely to differ in terms of their abilities to select, build, deploy and protect core competency. These differences are, in turn, likely to yield differences in corporate performance. Building core competency requires the accumulation and integration of knowledge, residing both within the firm and without. For example the core competence of a telecom company may reflect in managing billing systems, an insurance company's core competence in claims processing, and Sony's core competence in miniaturization are each a tapestry of many individual technologies and skills. The core competencies of the companies are those that push down the competitors' products in all the business domains. These strategies are central to the customers, channels and alliance advantage.

There are many attributes of C&C, however, the following may be defined as the key attributes of the C&C:

- Dynamism
- Span
- Robustness
- Security against imitations
- Ability to expand.

Dynamism of the C&C refers to continuous change for the betterment of the policies and execution of the strategies. The organization must be able to identify the new markets continuously and never be static at any point of time. An organization must have a wide span to discharge their competency without specifying the boundaries of time and area. It is essential for a company to retain its C&C for a longer duration and unrestricted to any areas of change. C&C also vary in their acceptability to the current and future business domains. A competitor cannot always leverage a competence for the new products or services development in changing business domains. The companies must secure that their C&C strategies are not replicated by other firms or used in any distorted manner. Indeed, any C&C of any company should be able to enhance continuously so that it adds to the sustainable advantages. In practice, today's global competition is more dynamic and multidimensional than those models suggest. The mature industry paradox is that leadership demands differentiation, yet differences are quickly copied. Single-

factor innovations tap one competency, and capable competitors can usually match it. Multiple competency strengthen several dimensions and in effect redefine the basis of competition.

The "shadow strategy task force" is offered as a method to force managers to relinquish the comfort of the firm's accepted view of itself. This approach begins with the objective of identifying the strategies and competency that, in the hands of competitors, might be used to attack the firm's competitive position successfully. Especially critical on the task force are individuals with insight into how customers, suppliers, and competitors view the firm's products and services. Developing new competency requires constant experimentation. The innovation-imitation-equilibrium cycle suggests that *industry leaders teach customers what to demand by defining* the current state of the art in performance, price, service, and other dimensions; customers learn to judge competitive offerings against these standards, and the learning effect is cumulative.

LG Electronics India and Samsung in India have entered the electronics market as rivals and are getting along in the business with the same spirit and surviving the market competition. Both the companies are of Korean origin and are into almost identical product segments in the market. Their pricing strategies are similar and they follow largely identical business models to compete with each other in the Indian market. In the marketplace these companies are the most spirited rivals and use throwing punches figuratively on each other's performance to prove their capabilities and build customer loyalty. These two companies fight for each piece of consumer electronic goods in the market. In early July 2000 Samsung came-up with an advertisement proclaiming itself the leader on the 310-litre and above frost-free refrigerators segment, LG responded by challenging both the Samsung and ORG-GFK, which provided the market share data to the advertiser for making it a public claim. Growth in an adjacent market is tougher than it looks; three-quarters of the time, the effort fails. But companies *can change those odds dramatically. Results from* a five-year study of corporate growth conducted by Bain & Co. reveal that adjacency expansion succeeds only when built around strong core businesses that have the potential to become market leaders. And the best place to look for adjacency opportunities is inside a company's strongest customers. A research study revealed that the most successful companies were able to outgrow their rivals consistently and profitably by developing a formula for pushing out the boundaries of their core businesses in predictable, repeatable ways. Companies use their repeatability formulas to expand into any number of adjacencies.

Some companies make repeated geographic moves, whereas others apply a superior business model to new segments. In other cases, companies develop hybrid approaches. The successful repeaters in the study had two common characteristics: they were extraordinarily disciplined, applying rigorous

screens before they made an adjacency move, and in almost all cases, they developed their repeatable formulas by carefully studying their customers and their customers' economics. The strategies of Japanese firms have often emphasized its conflicting nature, at least in international markets. It is certainly clear that Japanese firms have more systematic and formal procedures for identifying competitors and analyzing their behavior. It is tempting to conclude that their success is the success of conflict-based strategies. In practice it is almost impossible to come to such judgments.

While they are aware of competitors and their weaknesses, they are also keen students of both markets and technology. It is certain that a combination of factors, many of them subtle and difficult to comprehend, leads to the success, in some markets, of Japanese companies. Such success cannot be attributed solely, if at all, to a policy of competitor elimination.

There are many ways to categorize core competency. However, broadly these may distinguish as market-access competency, integrity related competency and functionality related competency. The market access competency includes management of brand development, sales and marketing, distribution and logistics, technical support, etc. All these skills help to put a firm in close proximity to its customers. The attributes associated with competency like quality, cycle time management, just-in-time inventory management and so on which allow a company to do things more quickly, flexibly or with a higher degree of reliability than competitors constitute the integrity related competency of a firm. The functionality related competency lead to the skills which enable the company to invest its services or products with unique functionality, benefit to the customer). Comparative analysis examines the specific advantages of competitors within a given market and offers structural and response advantages. Structural advantages are those built into the business *e.g.*, a manufacturing plant in Mexico may, because of low labor costs, have a built-in advantage over another firm. Responsive advantages refer to positions of comparative advantage that have accrued to a business over time as a result of certain decisions. This type of advantage is based on leveraging the strategic phenomena at work in the business. Besides, the examination of the business system operating in an industry is useful in analyzing competitors and in searching out innovative options for gaining a sustainable competitive advantage. The business-system framework enables a firm to discover the sources of greatest economic leverage, that is, stages in the system where it may build cost or investment barriers against competitors. The framework may also be used to analyze a competitor's costs and to gain insights into the sources of a competitor's current advantage in either cost or economic value to the customer.

In the developed markets both the brands are perceived as low profile

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and are paying high cost for changing such perception. However, the Indian market has opened up the opportunity for these brands to position at a premium scale at relatively low costs. Both the companies play as high profile rivals in the Indian market as their business strategies closely cut across each other to achieve their business goals. Most companies focus on matching and beating their rivals. As a result, their strategies tend to take on similar dimensions. What ensues is head-to head competition based largely on incremental improvements in cost, quality, or both. The multinational companies which are dynamic in strategy experimentation and innovative companies break free from the competitive pack by staking out fundamentally new market space by creating products or services for which there are no direct competitors. This path to value innovation requires a different competitive mind-set and a systematic way of looking for opportunities. Instead of looking within the conventional boundaries that define how an industry competes, managers can look methodically across them. By doing so, they can find unoccupied territory that represents real value innovation. Rather than looking at competitors within their own industry, for example, managers can ask why customers make the trade-off between substitute products or services. For example, *Home Depot-* a US chain retail store on construction materials and services, looked across the substitutes serving home improvement needs. Intuit looked across the substitutes available to individuals managing their personal finances. In both cases, powerful insights were derived from looking at familiar data from a new perspective.

4.28 ANALYZING COMPETITOR'S SIGNALS

Signals coming out of the business moves of the competitor are the important source of data and information at the market place. As stated in the pretext that the behavior, statements and the organizational information are the major sources of learning the competitors' moves, the signals emerging from the competitor show the magnitude and direction of the information flow. The market place indicators are the principal sources of information for analyzing the signals in reference to the behavioral patterns, statements and the organizational culture of the competitor.

The indicators of organizational change include market place strategies, customer value chain, alliances, relationships, networks, assumptions, assets, capabilities and competency, technology, infrastructure of the company and the like. The business credentials, credit worthiness of the company in the market and its financial status also provide important indications to the competitors for learning their respective moves in the market. It may be understood that an increase in the competitors' credit intakes with any financial institution may generate a signal of its intent

to implement a major strategic initiative to expand its business such as an acquisition or planning for capital investment for augmenting its production or marketing activities. The change in the values, beliefs and behavior of the customers, suppliers and business facilitators also indicates the intensity of signals of the competitors.

The signals, which indicate the history of the company, current moves and future strategy, may be broadly categorized as below:

- Prospective signals
- Retrospective signals
- Current signals
- Anticipated signals
- Alerting signals
- Refuting signals.

4.29 COMPETITIVE FOCUS

Company planning to take lead in the market should develop a strategic vision for dominance in the market place. It should also plan to achieve the output by implementing the strategy successfully. This phase may be viewed as ***discovering*** the competitive strength of the company. Later on the basis of results of discovery the business process need to be ***re-engineered*** and ***executed***. These are the three important phases in the re-engineering the business function with competitive focus; a company has to be prepared for planning to out-wit, out-maneuver and out-perform the competitor. There are various factors associated with these phases of change in business strategy for a company to be one of the best companies surviving in the market.

A company making efforts to become the market leader has to put substantial energy and resources in learning the competitor's move and later unlearn the same among the core team responsible for building strategies. In this process it is necessary to generate new ideas and assess their suitability to administer in the market and adaptability in the work environment of the company. Once the appropriate strategy is selected the core team has to take all steps to apply the same against the move of the competitors. These steps will help the company to play its dominance in the market against the competing forces.

The dominance will also help the company to re-define the engineered strategy to its suitability in the market and commitment to apply the same against the competitors. The time taken for realizing the re-engineered strategy results against competitors vary according to the intensity of business penetration and customer relationship. However, to get a quick

realization to the reengineered business efforts a company has to build teams, plan execution of strategy in detail, confirm investment (if any), assess and recognize the impact. The company, during such market intervention operations has to handle the communications very carefully among the staff members and channel managers to avert any fowl interpretations and actions thereby. Communications to the staff members and channels should be comprehensive in the context of strategy re-engineering, the vision of work has to be made known to the concerned, explain rationale and assess the impact. The core team has to be trained to execute the task, control strategic points of the plan and to provide continuous inflow of the impact information to the top management of the company. Any business strategy implemented in the market should have strict measures against the task, time and target. Nevertheless, the cost benefit assessment is important to evaluate the success of the interventions moved against competitors and re-define the next moves. The on-going management reviews and key indicators analysis are essential for a company to count its sustainability amidst competition in the market. The company must prepare a checklist of strength, weakness, opportunities and threats of in reference to the moves of the competitor. Some of the variable of the SWOT is illustrated in Table. The company has to prepare for the opportunities and build strategies to overcome the threats from the competitors. There are some factors like advertising and communication where equal opportunities exist for both the potential and rival business companies. This is an innovative sector where higher the creativity and reach larger is the impact on market.

Table 4.6. Competitor Learning—SWOT Analysis

Indicators	Strong	Weak	Opportunity	Posing threat
Process Technology				
Quality				
Cost				
Lead time				
Delivery time				
Delivery system				
Indicators	Strong	weak	opportunity	Posing Threat
Information management				
Work Team				
Product support/services				
Merchandising				
Marketing and sales				
R&D				
Customer Price				
Advertising				

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Robustness Flexibility Differentiation Policy Customer response Customer relationship Correctness to customers Channel management Profit and performance	
–Competitor Firm	–Your Company

A company should acquire the strategies of outwitting, outmaneuvering and outperforming the competitors to win the race. It is necessary for the successful business companies to look for such a place of business that provides them more location advantage and hold the customers for their goods and services. The driving forces of competing firms, their organization and micro-economic environment need to be studied carefully by the company planning to overtake competitors in the business. Further in the process of winning the battle of rivals, it would be helpful for a company to understand the changing stakes of the competitors and forces after such developments. It is necessary to build-up strong, comprehensive and reliable database for capturing the activities of any business rival or competitor. Data is thus the basic input for competitor learning. In the competitive markets, the efficiency of the services discharged and extended to the buyers also contributes in building or breaking the market place strategy. Products, in the same market or competitive domain, largely vary in their availability may be due to weak or faulty supply chain management. An increase in the competitors' credit intakes with any financial institution may generate a signal of its intent to implement a major strategic initiative to expand its business such as an acquisition or planning for capital investment for augmenting its production or marketing activities. Hence, strategy building against the competitor is a very careful exercise that needs to be done by the practicing managers.

4.30 TOTAL QUALITY MANAGEMENT

TQM is the way of managing for the future, and is far wider in its application than just assuring product or service quality – it is a way of managing people and business processes to ensure complete customer satisfaction at every stage, internally and externally. TQM, combined with effective leadership, results in an organisation doing the right things right, first time.

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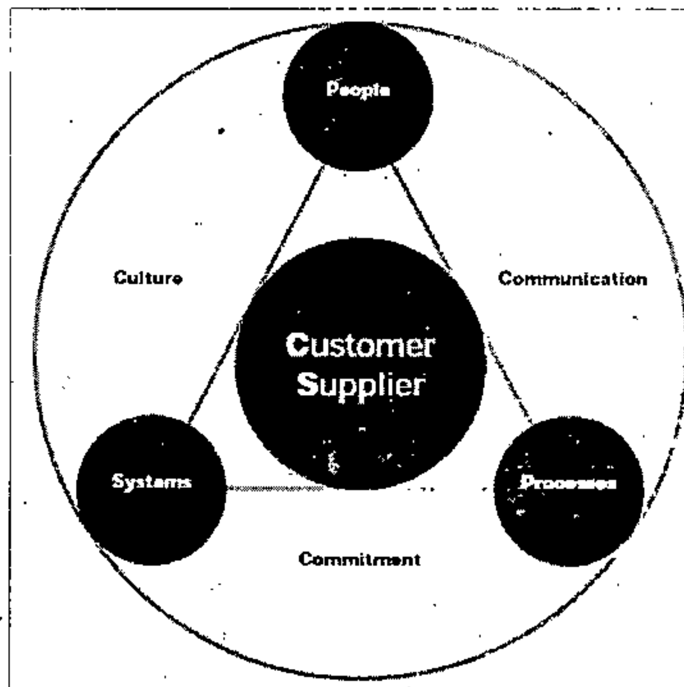

Figure 4.7

The core of TQM is the ***customer-supplier*** interfaces, both externally and internally, and at each interface lie a number of ***processes***. This core must be surrounded by ***commitment*** to quality, ***communication*** of the quality message, and recognition of the need to change the ***culture*** of the organisation to create total quality. These are the foundations of TQM, and they are supported by the key management functions of ***people***, ***processes*** and ***systems*** in the organisation.

This section discusses each of these elements that, together, can make a total quality organisation. Other sections explain people, processes and systems in greater detail, all having the essential themes of commitment, culture and communication running through them.

4.31 WHAT IS QUALITY?

A frequently used definition of quality is *"Delighting the customer by fully meeting their needs and expectations"*. These may include performance, appearance, availability, delivery, reliability, maintainability, cost effectiveness and price. It is, therefore, imperative that the organisation knows what these needs and expectations are. In addition, having identified them, the organisation must understand them, and measure its own ability to meet them.

Quality starts with market research – to establish the true requirements for the product or service and the true needs of the customers. However, for an organisation to be really effective, quality must span all functions,

all people, all departments and all activities and be a common language for improvement. The cooperation of everyone at every interface is necessary to achieve a total quality organisation, in the same way that the Japanese achieve this with company wide quality control.

Customers and Suppliers

There exists in each department, each office, each home, a series of customers, suppliers and customer supplier interfaces. These are "the quality chains", and they can be broken at any point by one person or one piece of equipment not meeting the requirements of the customer, internal or external. The failure usually finds its way to the interface between the organisation and its external customer, or in the worst case, actually to the external customer.

Failure to meet the requirements in any part of a quality chain has a way of multiplying, and failure in one part of the system creates problems elsewhere, leading to yet more failure and problems, and so the situation is exacerbated. The ability to meet customers' (external and internal) requirements is vital. To achieve quality throughout an organisation, every person in the quality chain must be trained to ask the following questions about every customer-supplier interface.

Customers (Internal and External)

- Who are my customers?
- What are their true needs and expectations?
- How do, or can, I find out what these are?
- How can I measure my ability to meet their needs and expectations?
- Do I have the capability to meet their needs and expectations? (If not, what must I do to improve this capability?)
- Do I continually meet their needs and expectations? (If not, what prevents this from happening when the capability exists?)
- How do I monitor changes in their needs and expectations?

Suppliers (Internal and External)

- Who are my internal suppliers?
- What are my true needs and expectations?
- How do I communicate my needs and expectations to my suppliers?
- Do my suppliers have the capability to measure and meet these needs and expectations?
- How do I inform them of changes in my needs and expectations?

As well as being fully aware of customers' needs and expectations, each person must respect the needs and expectations of their suppliers. The ideal situation is an open partnership style relationship, where both parties share and benefit.

Poor Practices

To be able to become a total quality organisation, some of the bad practices must be recognised and corrected. These may include:

- Leaders not giving clear direction
- Not understanding, or ignoring competitive positioning
- Each department working only for itself
- Trying to control people through systems
- Confusing quality with grade
- Accepting that a level of defects or errors is inevitable
- Firefighting, reactive behaviour
- The *"It's not my problem"* attitude

The essential components of TQM – commitment and leadership.

TQM is an approach to improving the competitiveness, effectiveness and flexibility of an organisation for the benefit of all stakeholders. It is a way of planning, organising and understanding each activity, and of removing all the wasted effort and energy that is routinely spent in organisations. It ensures the leaders adopt a strategic overview of quality and focus on prevention not detection of problems. Whilst it must involve everyone, to be successful, it must start at the top with the leaders of the organisation.

All senior managers must demonstrate their seriousness and commitment to quality, and middle managers must, as well as demonstrating their commitment, ensure they communicate the principles, strategies and benefits to the people for whom they have responsibility. Only then will the right attitudes spread throughout the organisation.

A fundamental requirement is a sound quality policy, supported by plans and facilities to implement it. Leaders must take responsibility for preparing, reviewing and monitoring the policy, plus take part in regular improvements of it and ensure it is understood at all levels of the organisation.

Effective leadership starts with the development of a mission statement, followed by a strategy, which is translated into action plans down through the organisation. These, combined with a TQM approach, should result in a quality organisation, with satisfied customers and good business results. The five requirements for effective leadership are:

- Developing and publishing corporate beliefs, values and objectives, often as a mission statement.
- Personal involvement and acting as role models for a culture of total quality.

- Developing clear and effective strategies and supporting plans for achieving the mission and objectives.
- Reviewing and improving the management system.
- Communicating, motivating and supporting people and encouraging effective employee participation.

The task of implementing TQM can be daunting. The following is a list of points that leaders should consider; they are a distillation of the various beliefs of some of the quality gurus:

- The organisation needs a long-term **commitment** to continuous improvement.
- Adopt the philosophy of zero errors/defects to change the **culture** to right first time.
- Train people to understand the **customer/supplier** relationships.
- Do not buy products or services on price alone – look at the **total cost.**
- Recognise that improvement of the **systems** must be managed.
- Adopt modern methods of **supervising and training –** eliminate fear.
- Eliminate barriers between departments by managing the **process**– improve **communications** and **teamwork.**
- Eliminate goals without methods, standards based only on numbers, barriers to pride of workmanship and fiction – get **facts** by studying **processes.**
- Constantly educate and retrain – develop **experts** in the organization.
- Develop a **systematic** approach to manage the implementation of TQM.

Culture Change

The failure to address the culture of an organisation is frequently the reason for many management initiatives either having limited success or failing altogether. Understanding the culture of an organisation, and using that knowledge to successfully map the steps needed to accomplish a successful change, is an important part of the quality journey. The culture in any organisation is formed by the beliefs, behaviours, norms, dominant values, rules and the "climate". A culture change, e.g, from one of acceptance of a certain level of errors or defects to one of right first time, every time, needs two key elements:

- Commitment from the leaders
- Involvement of all of the organisation's people.

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There is widespread recognition that major change initiatives will not be successful without a culture of good teamwork and cooperation at all levels in an organisation, as discussed in the section on People.

The building blocks of TQM: processes, people, management systems and performance measurement

Everything we do is a Process, which is the transformation of a set of inputs, which can include action, methods and operations, into the desired outputs, which satisfy the customers' needs and expectations. In each area or function within an organisation there will be many processes taking place, and each can be analysed by an examination of the inputs and outputs to determine the action necessary to improve quality. In every organisation there are some very large processes, which are groups of smaller processes, called key or core business processes. These must be carried out well if an organisation is to achieve its mission and objectives. The section on Processes discusses processes and how to improve them, and Implementation covers how to prioritise and select the right process for improvement.

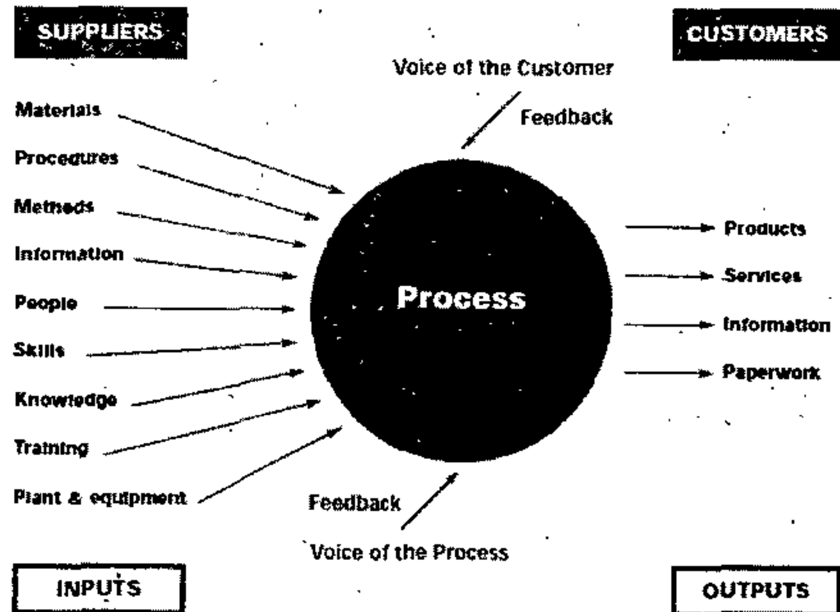

Figure 4.8

The only point at which true responsibility for performance and quality can lie is with the **People** who actually do the job or carry out the process, each of which has one or several suppliers and customers. An efficient and effective way to tackle process or quality improvement is through teamwork. However, people will not engage in improvement activities without commitment and recognition from the organisation's leaders, a climate for improvement and a strategy that is implemented thoughtfully and effectively. The section on People expands on these issues, covering roles within teams, team selection and development and models for successful teamwork.

An appropriate documented **Quality Management System** will help an organisation not only achieve the objectives set out in its policy and strategy, but also, and equally importantly, sustain and build upon them. It is imperative that the leaders take responsibility for the adoption and documentation of an appropriate management system in their organisation if they are serious about the quality journey. The Systems section discusses the benefits of having such a system, how to set one up and successfully implement it.

Once the strategic direction for the organisation's quality journey has been set, it needs **Performance Measures** to monitor and control the journey, and to ensure the desired level of performance is being achieved and sustained. They can, and should be, established at all levels in the organisation, ideally being cascaded down and most effectively undertaken as team activities and this is discussed in the section on Performance.

4.32 BRAND BUILDING AND PROMOTIONAL STRATEGY

Brand is largely associated with the attributes of the product, benefits, use values, user culture, and personality and user behaviour. Hence the branding decisions are very important for the company. In this process the company should first take a decision on developing the brand name and its need. Branding is necessarv to get the identification of the product and supplier, process supply orders, gain legal protection and good corporate image. The process of branding decision making in a company is exhibited in figure 4.9. The branding also helps in building loyal customers for the product and organising the seller segments for better operational efficiency. Company has to assess the strength and weaknesses of the existing brands in the market before taking the branding decision for their product. The manufacturing company may have several options on brand sponsorship. The product may be launched in the market as the brand of manufacturer, which is also known as national brand, a distributor brand as happens in case of edible oils, sugar, processed grains and in many products which needs re-packing, or licensed brand name. The brand category may be chosen from the brand sponsorship in terms of national brand, private brand or licensed brand. Deciding upon the category of brand an appropriate brand name may be selected. The brand names may reflect individual, blanket family name for all products, separate family names for all products or company trademark. The brand name should be easy to pronounce, short and convey proper meaning in the language of the country/region. The brand name should be such that it suggests some use value or attribute of the product and is distinct from the existing market brands. The

brand extension in the same company can be explained as *product line*. It has been observed that the majority of new product activities consist of line extension. The company may have four basic options in brand strategy – *line extension* in which the existing brand can be extended to new attributes in the existing product category, *brand extension* which enables the company to introduce new brand names to new product categories, *multi-brands* may be used, if new brand names are provided to the same category of products and finally the *new brands* are those where new brand names are used for the new product categories. A company may decide to use an existing brand name to launch a product in a new category. The Honda uses its brand name for two wheelers, four wheeler and stroke engines.

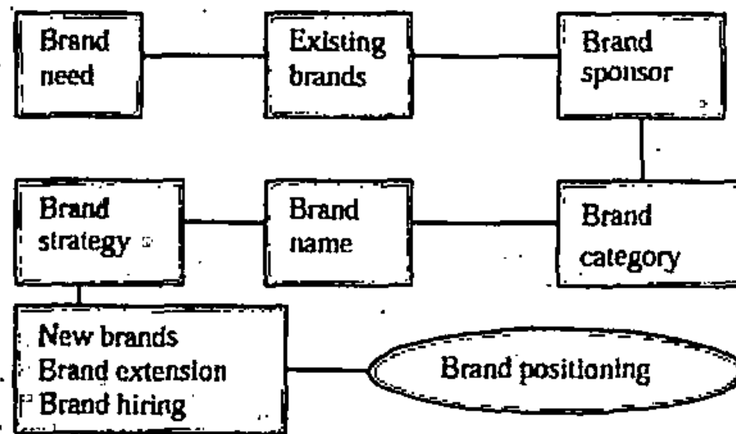

Figure 4.9. Branding decision

Likewise the Hyatt practices the brand extension strategy by using its brand name in every hotel variation such as Hyatt's Resorts, Hyatt's Suits and Park Hyatt etc. This strategy makes the customers understand the reputation of the company and the quality of services. The brand extension would be more beneficial, if it serves to increase the sales of existing as well as the new products of the company. Sometimes the companies feel that multibrands help in establishing different features to generate appeal to different buying motives. The example may be cited of the multi-brand strategy of Proctor and Gamble, which has introduced as many as nine different brands of detergents. The multibrands may always gain small market share as compared to the solo brands and in particular these brands may not be able to generate sustainable sales revenue. In the market a strong brand will be considered to have high brand equity. The brand equity will be higher, if the brand loyalty, awareness, perceived quality; strong channel relationships and association of trademarks and patents are higher. High brand equity provides many competitive advantages to the company. The brand equity may be understood as the highest value paid for the brand names during buy-outs and mergers. This concept may be defined as the incremental value of a business

above the value of its physical assets due to the market positioning achieved by its brand and the extension potential of the brand.

Latest simplicity concepts have resulted from intensive consumer research, blending traditional design skills with psychology, anthropology, and ethnography. The research showed that an aging population, which caused a rise in health-care costs, will shift the focus of clinical health care from curing to prevention, with individuals taking increasing responsibility for their own health. Philips has reinforced its brand focus on consumer value by demonstrating the high technology aimed at gaining consumer satisfaction. Philips brands now sow human values towards anthropography designs and use values. The brand demonstrations - "Listen to your body" displayed a series of health monitoring devices while "Care for your body" used sensory therapies such as light to rejuvenate and energize. "Move your body" looked at interactive ways to stimulate play for kids and an exercise system to keep in shape for adults. "Relax your mind" used light and music to change the atmosphere of a room and your moods, while "Share experiences" explored innovative and interactive ways to share photos and communicate with family and friends.

4.33 BRAND CATEGORIES

Strategically the brands are managed separately and independently. On some occasions, the brands are introduced in the market on *adhoc* basis. This strategy requires decision-making to allocate appropriately the resources to the identified brands. The brand personality is the core-measuring tool of the brand management exercise. The brand management broadly consists of the following activities:

- Brand launch
- Brand leverage
- Brand equity and
- Brand loyalty.

A strong brand is a valuable asset and its management should include proper positioning along with visual presentation of the brand image through the trade mark and trade dress. A trade dress of the brand is its nomenclature symbol style and colours put together on the product package. The trade dress of the brand need to be registered to protect imitations. The brand management strategy consists of five major constituents as exhibited in figure 4.10. The brand equity consists of the strength of the brand along with the brand presentation strategy and its association with the user groups. The brand equity is largely reflected in the market behaviour comprising market share, price, perceived

quality, distribution efficiency, and consumer loyalty and promotion strategy. The brand leveraging may be defined as an exercise using an existing brand name to enter a new product category. Brand leveraging is potentially very attractive. It makes use of the existing consumer awareness, good will and loyalty. Such exercise of brand *positioning is cost effective and* reflects greater emphasis on brand. The Procter and Gamble adopted a brand leveraging strategy in the introduction of its sanitary hygiene product Always. The P&G adopted similar strategy for introducing the liquid detergent *Tide* as a new category of product. In order to implement an effective brand strategy, it is necessary to identify an appropriate category of branding. Multinational companies in a competitive environment *adopt the following* brand strategies.

- Specific product branding
- Product line branding
- Corporate branding
- Combination branding
- Private branding.

Brand leveraging strategy by a company may be adapted through extending the product line category. The new product line can be formed by stretching it to cater the mass or class market consumers. Sometimes the companies prefer to form a new product line instead of stretching the existing product line vertically or horizontally. The co-banding or brand hiring strategies also provide the brand leverage which may give opportunities for more franchising and better sales promotion of the products and services. Whenever a new product line of the company is developed, it should be decided whether a new brand name has to be given the products thereof or use an existing names. The example may be cited of *Coca-Cola* Company when it first developed the diet cola drink; *it chose* to use a new, name tag instead of capitalizing on its existing consumer brand to promote franchise by using the Diet Coke. However, later in competition to Diet Pepsi the *Coca-Cola* Company countered its rival by using Diet Coke which is one of the best seller products now in the market. On the other extreme the company could have introduced a new brand in a new category, and presented it in the market as a solely new *product*. The *family brands are group of products* sold under one label by a single company. Heinz, Del Monte and General Electric (GE) endorse a wide array of products with their own corporate name while the consumer goods companies like Proctor and Gamble (P&G) and Nestle prefer to use separate brand names for each product. The P&G has eleven brands in the heavy-duty detergent category in the United States of which two brands Tide and Ariel are best sellers in India. The US brands of P&G

in this category are Cheer, Bold, Gain, Era, Dash, Oxydol, Solo, Dreft and Ivory Snow including Tide and Ariel. The family brands have the advantage that advertising for one brand promotes the sales of all products carrying that particular label or attributes. The family brands also make it easier to introduce new products to the distribution channels and consumers. However, the family brands offer a narrow distinction among the products of the same category and it is difficult for the product manager to create and maintain an identity for each product and then tie them together with a unifying trade name. This strategy is used by the General Motors as their cars are promoted under their own names and the GM symbol is used as common point of reference in marketing the products.

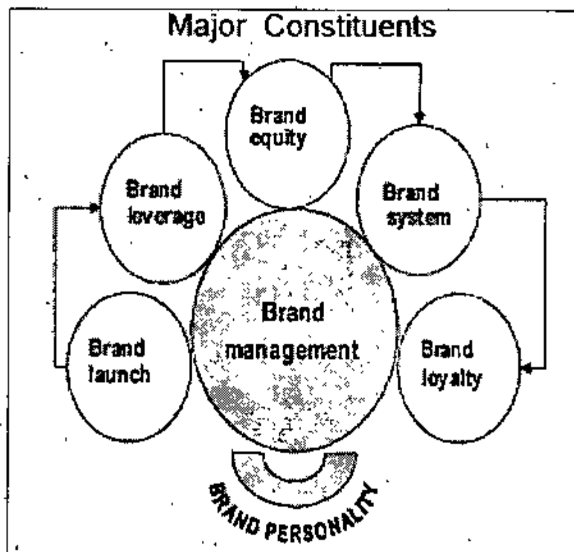

Figure 4.10. Strategic brand management

A brand may help in gaining competitive advantage but need to be carefully architected. Wal-Mart has emerged as a strong retail brand with emphasis on everyday low prices. The strategy could be difficult to pull off, since the stronger, lower-price retailers are expanding in a long-term effort to take a bigger share of the retail pie. Having less inventory can certainly help profits, but it's no sure bet. While too much can hurt gross margins, due to added markdowns, too little can limit selection and hurt overall sales. Because expenses are being spread over less revenue, retailers risk hurting operating margins. Of course, the discount retailers that are expanding aggressively could easily overplay their hand. But retailing is much like a zero-sum game, with one player taking share at the expense of another. With consumers running out of steam, they're more likely to choose lower-price formats, to save money. Retailing was once a stay-at-home sector. Most of the companies including WalMart were content to grow at home. Universally appealing product assortments are difficult to create, and far-flung, people-intensive retail operations are tricky to run. Since the mid-

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1990s, however, retailers have come under intense pressure from their shareholders to grow farther and faster, expressed in high share prices. How brand can be used a strategic tool to gain competitive advantage, the question remains for a secured growth? *National brands* are identified as long standing in the competitive markets and wide spread distribution over the spatial and temporal market segments. The national brands are not very sensitive to the price gaps and the private labels. When a firm markets another brand in the existing category and protects its market positioning, the product is defined as flanker brand. The flanker brand is also known as fighting brand. Such brand has low investment on advertising and the product is offered on cost price. The American Express sells its premium priced products as green, gold and platinum credit cards and the card named as Optima was brought to the market by the company as a fighting brand. Such brands outwit the competing brands in a cost effective way. The *private brands* are more sensitive to the personal income and most of the retail stores set such brands for selling their grocery and consumer goods. The store based private labels or brand offer a number of advantages with high margins.

4.34 BENCHMARKING

David T Kearns, CEO: Xerox Corporation once said, *"Benchmarking is the continuous process of measuring product, services and practices against the toughest competitors, or those companies recognized as industry leaders".* Benchmarking is an *external* focus on *internal* activities, functions or operations in order to achieve continuous improvement. Starting from an analysis of existing activities and practices within an organization, the objectives are to understand existing processes, or activities and then to identify an external point of reference, or standard, by which each activity can be measured or judged. A benchmark can be established at any level of the organization, in any functional area. The ultimate goal is to be better than the best *i.e.,* to attain a competitive edge.

Organization that introduces benchmarking correctly can use it to make a quantum leap in their performance, and develop a culture in which managers and staff constantly searches for improvements. Within logistics and supply management, benchmarking can be used for a number of different purposes, from assessing the performance of the entire operation, through prioritizing improvements, to searching for the off-the-shelf improvement strategies in a specific area of a logistics or supply chain activity. In some senses, benchmarking is imitation and stealing – "creative swiping". At its best it is skillful appropriation and adaptation requiring imagination and innovation; at its worst it can be an expensive and time–consuming piece of corporate tourism. It is a long-term process,

requiring senior management's commitment, with the emphasis upon continuous improvement and organizational learning. The focus is primarily upon the role, strategic issues, processes and practices, rather than on the bottom line and numeric measure of performance. The mere comparison of operations and costs is not sufficient; considerable attention must be paid to how the activities are organized and performed. This will provide good understanding of how superior performance has been achieved, rather than just the magnitude of the performance gap.

4.35 IMPORTANCE AND ROLE OF BENCHMARKING: MERGER AND ACQUISITIONS

Benchmarking provides the basis for meeting and exceeding stakeholder expectations. Understanding its potential benefits requires understanding the type of benchmarking to be deployed and the purpose of conducting such an exercise. While benchmarking can be performed at any time, it is often undertaken as a response to an information need associated with a project or issue within the organization. The situations that may trigger the benchmarking process are:

- Operations/Logistics and Supply Chain improvement efforts
- Management/Organizational changes
- Merger and Acquisitions
- Competitive Threats
- Cost Reduction Initiatives.

Benchmarking in any of these situations is a logical step in developing new objectives, setting new performance standards and metrics and redesigning process and procedures.

A company benchmarks because it wants to be the best. To this end, benchmarking should not be considered as an optional activity. It is more so a call of the day for companies to maintain their competitive advantages. *Internal Benchmarking* is the analysis of existing processes and practices within various departments or divisions of an organization. The objective is to identify and analyze best performance within the confines of the organization's own boundary, and drive performance to this level or beyond. The process will facilitate an understanding of the basic activities that constitute the processes within the organization and the drivers associated with these. Drivers are the causes of work, the triggers that set in motion a series of activities. In conducting Internal Benchmarking, the management is looking at itself first before

thinking about comparisons outside. Significant improvements are often made through Internal Benchmarks and these are often the first steps in a benchmarking process.

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While Internal Benchmarking focuses on specific functions or processes, *Competitive Benchmarking* looks outwards in order to understand how direct competitors are performing. Knowing the strengths and weaknesses of competitors is important to strategic decision-making. Competitive benchmarking helps to level the playing field, but it is less likely to provide that innovative, step-out improvement that so many organizations are searching for today. *Industry Benchmarking* looks beyond the competitive relationship and looks for trends. The technique of benchmarking can be focused on specific processes, activities or functions, but this is only part of the answer. An associated issue is the depth to which the analysis is to be performed. Studies can be focused vertically upon functions and department, or horizontally upon specific processes or activities. While early forays into the world of benchmarking might be constrained to functional or departmental performance, the goal has to be a cross-functional view of the value chain needed to meet customer expectations in an efficient and effective manner.

A well-planned, systematic and structured benchmarking program can provide organizations with a number of important benefits. In essence, the search for industry best practices and subsequent efforts to maintain competitive superiority effectively provide the basis for superior performance. Almost any study that requires detailed examination of the organization's operations results in a greater understanding of how the business works; it's critical success factors (CSF's) and the key performance indicators (KPI's). But here again it is important to bear in mind that any form of continuous improvement in one part of the business does not just push to another area of operation – a phenomenon known as the *"waterbed effect"*.

Most organizations can learn from the experience of others, even though they may have very different customer requirements and competitive environments. Much can be gained by making comparisons with organizations that have to adopt a fundamentally different approach to the same or a similar task.

4.36 METHODOLOGY FOR BENCHMARKING

In most companies traditional measures are based on fiscal and legal requirements. These are then often used for planning purposes to facilitate comparison. The problem with these measures is that they are based upon derived information and have no clear relationship to the organization's operational data. On the other hand, operations develop their own set of KPI's and measures – that may be unrelated to the financial results – to

identify levels of customer satisfaction and market needs. This division often leads to conflict in the evaluation of performance. This has led to the development of the Balanced Score Card Concept (Kaplan & Norton, 1996) Measurements can either be quantitative (numeric) or qualitative (opinion based).

Quantitative and qualitative benchmarks are not being viewed as isolated categories, though. At one end of the continuum are highly qualitative measurements, for example assessment of customer or employee satisfaction. At the other end of the range are highly quantitative measurements such as cost per unit, or productivity measures. There are many tools for approximating qualitative characteristics with numbers, but these techniques will never have precision to back them up. As part of the continuum of measures it is important to recognize that qualitative measures are a midpoint in terms of 'hardness' or reality. Hard measures make the user feel as though they are real. Facts with numbers attached to them take on a life of their own; they appear to possess certain "magic" and people tend to believe these hard numbers. But, with each gain in precision, relevance is sacrificed. Therefore in developing benchmark measurement the goal is to develop a metric that is as "hard" as it can get without losing vital insights provided by the "softer" more intuitive qualitative indices.

A Systemic Approach

Many organizations have developed their own process. All approaches are fundamentally the same and are based on Deming's *Plan–Do–Check–Act (PDCA)* cycle.

Step 1: *Prioritize what to benchmark*

The first step focuses on the processes and activities that the organization believes will yield the maximum benefit. In any supply chain there are too many activities and processes to benchmark all of them in one go, therefore improvement effort cannot be spared too thinly, and all areas cannot be addressed simultaneously.

Step 2: *Identify comparable companies*

Benchmark partner selection can be determined by a benchmarking mechanism, for example through an existing benchmarking network or through an industry trade association. When this is not done, a number of issues need to be considered:

- Should competitors be approached? If so, how will confidentiality be addressed? Are they likely to have significantly better activities and operations?

- Can best-in-class organization be easily identified and what can be offered to them in exchange which is of interest to them?
- How many benchmark partners are required?
- Which organizations have similar requirements for operational processes, but are likely to have developed better processes to deal with them?
- How should the different areas of interest of partner organizations be accommodated within the process?

Step 3: *Data and information collection*

Once it has been decided what to benchmark, and the organization is identified and gained agreement from partners, the next step is to determine the process for data and information collection. The key here is to achieve commonly agreed understanding of the activities, processes, definition, terminology and time periods. Failure to achieve this will result in major problems in both the analysis and comparison activities, which ultimately may lead to rejection of the output by key managers.

All the participants must sign off the common understanding and a forum needs to be established to discuss and resolve any queries that arise during the process. Deadlines for each stage of the data and information collection need to be set, monitored and adhered to otherwise it would be considered a lengthy process.

Step 4: *Determine current performance gap*

Once the data and information have been collected, the analytical stage needs to be converted into useful outputs. High-level analysis should be used to sensecheck the data and information provided. Queries should be addressed to the supplying organization and resolved quickly. Data might be aggregated and particular attention should be paid to the following:

- Data normalization methods;
- Root cause analysis;
- Best practice characteristics identification;
- Identification of relevant process enablers.

When all the data and information have been accepted and analyzed, comparisons need to be made and gaps analyzed. The analysis should utilize an agreed framework, focusing on the key areas of interest. These could be points of greatest difference or similarity and should be presented in a way that will focus the recipients upon the required actions. The output should:

- Assess the overall comparisons in the areas of interest;
- Seek to explain whether there are broader business reasons for some of the differences;
- Identify the major performance gaps where the real opportunities for major improvements lie;
- Set targets and realistic time-scales;
- Outline what is required to close the gaps.

Step 5: *Project future performance levels*

Analyzing the benchmark performance gap can be done as a snapshot or as a trend over a period of time. Either method may be appropriate for the function or process being studied. Indeed, both may be applied simultaneously. When cost, productivity or quality is the metric under study, sometimes it is useful to look at the historical trend as well as the current gap. Additionally, projecting future performance levels of productivity within your own organization against that of the benchmark partner's – given the current rate of improvement for each creates projected targets for improvement. This approach helps the intent to increase the rate of innovation and improvement within the organization.

Step 6: *Communicate findings and gain acceptance*

It is a known fact that people do not like change, especially change that appears to be for 'change sake'. In order to ensure the success of any benchmarking program it is imperative that a detailed communication plan is created and revised regularly during the course of the initiative. Even with the support of senior management, there may be resistance to change from lower organizational levels. This resistance to change primarily stems from fear; fear of job losses, loss of status, control, resources and so on. In order to plan for and mitigate against such events, a stake-holder or field analysis might be used to identify potential areas of resistance and methods of overcoming any such concerns.

Step 7: *Establish functional goals*

Once outline targets have been drawn up, detailed functional (or cross-functional) goals can be established. The secret in using benchmarking to achieve breakthrough change is to synthesize key actions taken after consideration of all information available, to generate innovative approaches. After the enablers of performance within a specific organization environment have been assessed, careful consideration should be given to the adaptability of these enablers to the organization's circumstances.

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Step 8: *Develop action plans*

The action plans describe each of the key actions at a functional level required to achieve the desired goals. Action plans can be as detailed as required; in some instances they can even identify the core tasks, the desired levels of performance required, and the changes in the process, behavior or systems required to support their achievement.

Step 9: *Implement and monitor*

All the time and effort expended to this stage is worth very little if the output does not provide clear plans for change, and these are not implemented in real and lasting improvements. Having achieved a successful implementation, the organization must continue to monitor the operational performance, and assess whether there are other organizations that have now developed superior processes or practice.

Step 10: *Recalibrate benchmarks*

The continuous search for improvement will inevitably result in further development of the processes and practices, and some revisiting of benchmarking efforts.

4.37 CHANGE MANAGEMENT AND BENCHMARKING

Clearly the process of benchmarking focuses on customers and performance improvement with the potential for significant advances in efficiency and effectiveness. Benchmarking is used extensively by many organizations to help understand their relative positioning and efficiency of operations. Benchmarking networks; full time benchmarking manager and consulting assignments are evidence of the continuing interest in this area.

Benchmarking raises an organizations consciousness. It provides an external focus on the internal activities and derives an organization to the conclusion that there are always opportunities within every organization to learn something new. To achieve operational excellence an organization needs to experiment in all parts of the business. Everyone – from top management to down below – has to be willing to roll their sleeves up and get their hands dirty, constantly asking 'why?' The role of benchmarking in this environment is to provide the creative spur and to unearth a path that has worked for others in achieving operational excellence.

Benchmarking is about learning from others as well as learning by doing. It cannot be learned from a book or a seminar; it has to be practiced. The more the practice the greater is the potential for innovation within your business. As described earlier Benchmarking has four distinct phases:

- **Phase 1: Planning:** Identifying what to benchmark, selecting comparative companies or indeed parts of your business and determining how the data collection activities are to be performed.
- **Phase 2: Analysis:** Analyzing internal levels of performance and comparing these with the target organization's performance. Also, projecting future performance levels and setting targets in order to attain less time–perishable levels of competitive advantage.
- **Phase 3: Integration:** Communicating benchmark findings and helping the organization come to terms with what needs to change in order to achieve new and lasting levels of performance. Developing realistic and achievable functional goals to enable this vision.
- **Phase 4: Action:** Managing Change and developing specific action plans in order to make the desired levels of change a reality. Once implemented, the monitoring of progress via a set of clear KPI's is of paramount importance, allaying any drift back to old habits. Finally a recalibration of benchmarks is required in order to lead the business to the next level of operational excellence.

4.38 CHALLENGES FACED IN IMPLEMENTATION OF BENCHMARKING

Irrespective of the type and scope of benchmarking, the critical factors that are needed to be ensured are as follows:

- Senior management supports the process of benchmarking and are committed to continuous improvement.
- The objectives are clearly defined at the outset.
- The scope of the work is appropriate in the light of the objectives, resources and time available and the experience levels of those involved.
- Sufficient resources are available to complete projects within a given timeframe and that projects are selected based upon a prioritization linked to the achievement of competitive advantage.
- Benchmarking teams have a clear picture of their organizations performance before approaching others for comparisons.
- Stakeholders, particularly staff and their representatives are kept informed of the reasons for benchmarking and the progress made throughout the course of projects. Wherever practical, staff should be involved in undertaking benchmarking to make most of the opportunities for learning from other initiatives.

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As with many management techniques and processes, benchmarking provides organizations with problems as well as benefits. These occur as consequence of:

- The existing organizational culture
- Incorrect application of the techniques
- The nature of the process.

Benchmarking applications may be limited by the management culture. Benchmarking takes a normative approach to the management – there are industry best practices that can be generalized between sectors and organizations. As with most programs that require major organizational change, considerable inertia may be experienced from individuals and departments, especially those with the most to loose. These are inevitable issues around the identification of best practices and the adoption of processes that are not valued by that particular organization's customers. There is however difficult judgment calls to make around the introduction of new practices where quantum jump is required. Incorrect benchmarking can often lead to wrong conclusions. Benchmarking may lead to a culture of imitation rather than innovation; to adopt rather than adapt and to achieve parity rather than superiority. This type of approach will never result in competitive advantage. When the process is approached for the first time, it is worthwhile learning from others who have built up experience of applying benchmarking within their own operations. This is where membership of benchmarking clubs and network proves invaluable.

In general it is important to avoid:

- Benchmarking for benchmarking sake.
- Focusing entirely on comparisons of 'hard' performance measures rather than the 'softer' processes and activities that enable the attainment of good practice.
- Spending too long on one part of the process at the expense of others.
- Expecting that benchmarking would be quick or easy.
- Expecting to find benchmarking partners comparable in all respects to your own organization.
- Asking for information and adapt without being prepared to share it with others at conversely expecting organizations to share information that is commercially sensitive.

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4.39 SUPPLY CHAIN MANAGEMENT

Now you are aware of what Logistics and SCM mean. You have appreciated the role of Logistics and SCM in the economy. SCM is basically a system that connects an organization with its customers and suppliers. SCM is the management of all key business processes across a number of supply chains. It is important to know about different supply chain processes for having an integrated SCM.

Also there is a strong relation between Logistics group and Marketing group in an organization. Similarly, Manufacturing and Logistics are also interrelated. This unit will take you through to these concepts.

4.40 HOW DOES SCM WORK?

The Supply Chain Management (SCM) is viewed as a system that links an enterprise with its customer and suppliers. As shown in Figure 4.11 information flows from customer in the form of forecast and orders to both the enterprise and suppliers. This information is refined through planning into specific manufacturing and purchasing objectives. As materials and products are purchased, a value added inventory flow is initiated which ultimately results in ownership transfer of finished product to customers.

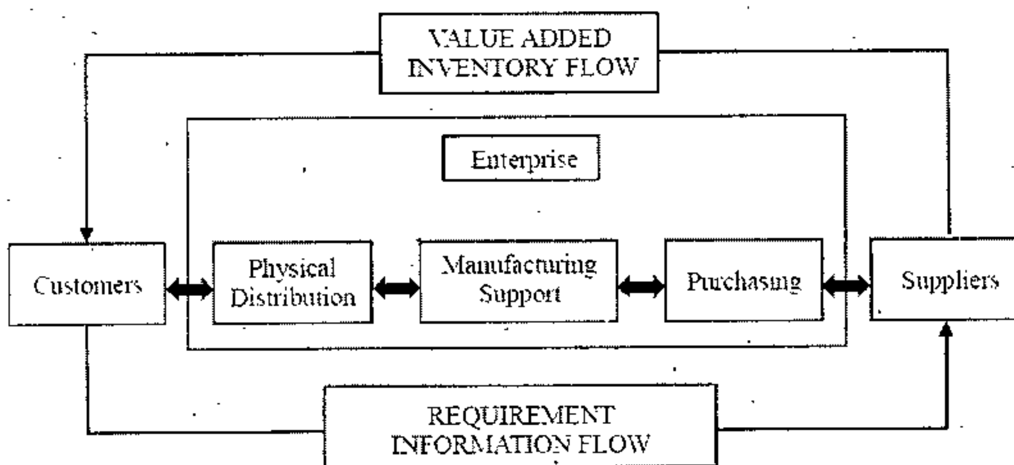

Figure 4.11. Supply chain system

SCM is an integrated approach that is highly interactive and complex and requires simultaneous consideration of many trade-offs. SCM is the management of all key business process across a number of the supply chains. Successful SCM requires a change from managing individual function to integrating activities into key supply chain processes. Operating an integrated supply chain requires continuous information flows, which in turn helps to create the best product flows.

The customer remains the primary focus of the process. However, improved linkages with supplies are necessary because controlling uncertainty in customer demand, manufacturing processes and supplier performances are critical for effective SCM. The key processes for the integrated SCM. (Figure 4.12) as follows.

Customer Relationship Management

This is the process to identify the key customers. With customer moving to centre stage, more companies have begun to treat a customer as a value independent entity. The companies no longer view sales as selling of their products, but as selling of relationships, solutions, support and care. Customer relationship teams develop and implement partnering program with key customer. Product and service agreements specifying the level of performance are established with these key customers.

Customer Service Management

Increased and intense competitions all around have made customer service as the key differentiator in a marketing system. Customer service provides the single source of customer information. It provides the customer with real time information on promised shipping dates and product availability. Customer service is a valuable business activity governing both resources and top management attention. Customer service is being offered in many forms such as post warranty support, fast repairs, speedy response to service calls from customers, easy avilability of spares, qualified, competent and customer friendly technicians.

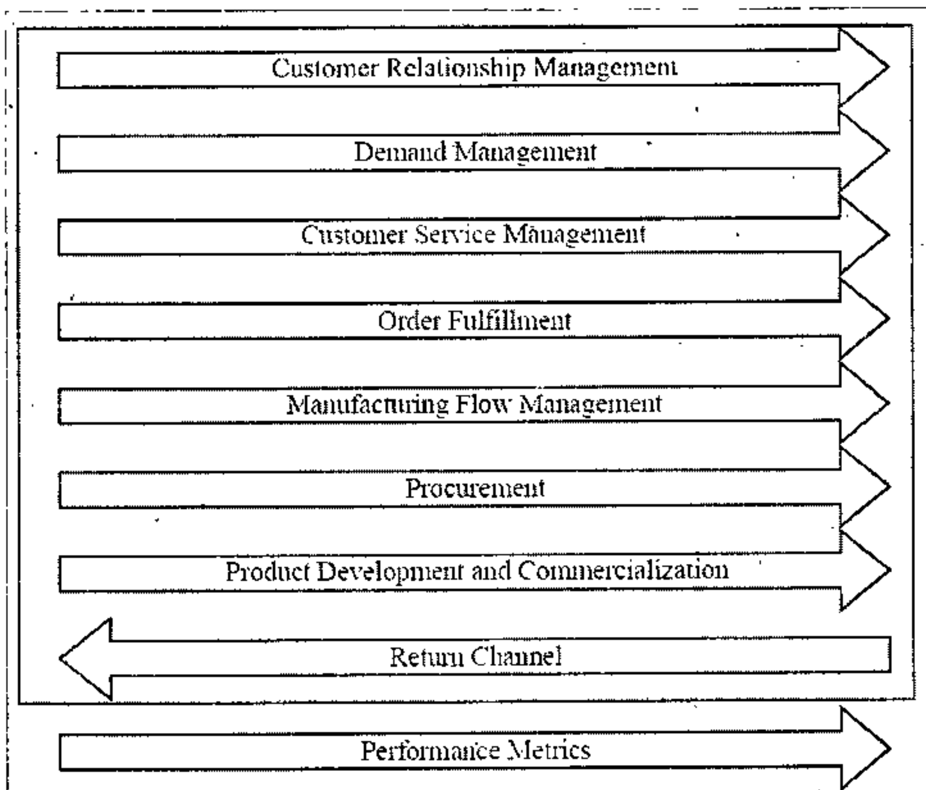

Figure 4.12. Supply chain process for integrated SCM

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Demand Management

Customer demand in the form of irregular order pattern is the largest source of variability. Given this variability in customer ordering, demand management is a key to an effective SCM process. Manufacturers are moving from a push system to make to order mode, in such case predicting or forecasting demand is the key driver on which all of the supply related decision will depend. The demand management process must balance the customer's requirement with the firm's supply capabilities. A good demand management system uses point of sales and "key" customer data to reduce uncertainty and provide efficient information flows through out the supply chain.

Customer Order Fulfillment

The key to effective SCM is to achieve high order fill rate. Order fill rate can be defined as % of order fulfilled before or on the due date set by the customer. Performing the order fulfillment process effectively requires integration of firms manufacturing, distribution and transportation plans.

Manufacturing Flow Management

This functional area decides how production should be organized and managed. Traditionally production system uses push strategy but in a customer focus environment pull strategy is more effective. To implement pull system, manufacturing process must be flexible to respond to market changes. This requires the flexibility to perform rapid change over to accommodate mass customization; orders are processed on a just in time basis in minimum lot size. In a customer focused business world, production process has to optimize balance between customer satisfaction and efficiency.

Procurement

Procurement is concerned with buying and movement of materials, parts or finished inventory from supplier location to manufacturing or assembly plants, warehouse or retail stores. Traditionally procurement is carried out on the basis of bid and buys system whereas in new integrated concept long-term partnerships are developed with core group of suppliers. Suppliers are involved at the early design stage which can lead to reduction in product development cycle times. For quick response to customer demand purchasing activities are carried out with rapid communication mechanism such as EDI and interest linkages. This reduces the cost and time on the transaction portion of the purchase.

Product Development and Commercialization

In today's fast changing environment new products are life bloods of a company. For the firm to remain competitive it has to sharpen its product development times. This requires that customer and suppliers must be integrated into product development process.

Return Channel

Managing the return channel as a business process offers the same opportunity to achieve a sustainable competitive advantage as managing the supply chain from an out-bound perspective. Effective process management of *return channel enables the identification* of productivity improvement opportunities and break through projects. Focusing effort on improvement in key business process is the foundation of SCM philosophy. Thus the goals of these processes are to:

- Develop customer focused teams that provide beneficial product and service agreement to strategically significant customers.
- Provide a permit of contact for all customers, which efficiently handle their inquiries.
- Continually gather, compile and update customer demand to match requirement with supply.
- Develop flexible manufacturing system that responds quickly to changing market conditions.
- Manage supplier partnership that allows for quick response and continuous improvement.
- Fill 100% of customer order accurately and on time.
- Enhance profitability by managing the return channel (reverse logistics).

4.41 LOGISTICS-MARKETING INTERFACE

Traditionally logistics group assumed primary responsibility for warehousing, inventory and transportation within many organizations while marketing group is responsible for negotiation, promotion and selling. As neither group had responsibility for over all channel management, conflicts arose at the expense of overall organization goal. The organizations had realized that functional interdependence, not internecine *conflicts, is the key to* satisfy customer needs. Despite the realization by logistics and marketing manager that cooperation is essential marketers often criticize logistics *department for being cost minimizers* having no concern for customer needs while logistics department accuses marketers of chasing sale at any cost. Therefore it is essential that organizations identify area of

agreement and potential conflict. Senior management must be keen to actively support cooperation between the two groups. This can be assisted by performance measurement that rewards coöperation and a spirit of interdependence that actively discourages parochial behaviour.

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Logistics and Product Life Cycle

Product life cycle (PLC) is a key marketing concept that affects the relationship between logistics and marketing. For different stages of PLC *i.e.*,introduction, growth, maturity and decline, different level of logistics support is required by marketing. In the introduction and growth stage timely cost effective fulfillment of order is a major requirement in ensuring initial acceptance of the product. Later as sales slow down and the product moves into the maturity and decline stages, the company changes to trimming cost as the product faces stiff price competition and consequent pressure on margins. Hence there is need for a logistics manager to understand what marketing is trying to achieve with each product and what appropriate level of logistics support is required accordingly.

Areas of Logistics and Marketing Interaction

In today's competitive environment organizations are utilizing the benefits of their established logistics/marketing interface to be competitive not in terms of product and price. but also logistics services tailored to meet individual customer needs.

These organizations are able to differentiate themselves from their competitors by offering a total service with logistics forming an essential part of the total value chain. The major area of interaction between logistics and marketing includes (Gattorna 1995):

- ***Product design***: This can have a major effect on warehouse and transportation utilization (and therefore costs).
- ***Pricing***: This is the means by which logistics services customer demand affects the overall cost of the product and in turn the organization's pricing policies.
- ***Market and sales forecasts***: Marketing forecasts will largely dictate the level of logistics resources needed to move products to customers.
- ***Customer service policies***: If marketing opts to offer a very responsive level of service to customer, logistics resources, in the form of facilities and inventory, will need to be very considerable.
- ***Number and location of warehouses***: This is one of the greatest areas of contention and can only be satisfactorily resolved if marketing and logistics develop the policy jointly.

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- ***Inventory policies***: This is another area of contention, as these decisions have a significant bearing on operational costs and the extent to which desired levels of customer service are achieved. It is another key area where policy should be developed jointly.
- ***Order processing***: Responsibility for who receives customer's orders and the speed and efficiency with which they are processed has a major impact on operational costs and customer's perceptions of service levels. This is another area where joint policy-making is preferable.
- ***Channels of distribution***: Decisions to deliver direct to the customer or through intermediaries will greatly influence the level of logistics resources required. As channels change, so will the resources required. Marketing should definitely consult with logistics when making channel decisions.

SUMMARY

- The major components of corporate strategy are purpose and objectives, vector, competitive advantage, synergy, personal values and aspirations and social obligations.
- Corporate strategy has one more important component *i.e.,* Vector.
- Unique competencies are defined as "Unique strengths that allow a company to achieve superior efficiency, quality, innovation, or customer responsiveness.
- Experience curve refers to the systematic decrease in production costs that occur over the life of a product.
- Strategic management of information should include the definition and improvement of business practices that support the organization's mission.
- Competition may be defined as an object centered process in business performance.
- The competitors send signal in the market about all the vital indicators of business like product, services, advertisement, prices, channels *etc.,*
- Knowledge is an important component in the process of competitor learning.
- The "shadow strategy task force" is offered as a method to force managers to relinquish the comfort of the firm's accepted view of itself.
- TQM is *the* way of managing for the future, and is far wider in its application than just assuring product or service quality.

- Strategically the brands are managed separately and independently.
- Brand is largely associated with the attributes of the product, benefits, use values, user culture, and personality and user behaviour.
- Benchmarking provides the basis for meeting and exceeding stakeholder expectations.
- The supply chain management (SCM) is viewed as a system that links an enterprise with its customer and suppliers.
- Procurement is concerned with buying and movement of materials, parts or finished inventory from supplier location to manufacturing or assembly plants, warehouse or retail stores.

REVIEW QUESTIONS

1. Discuss the concept of strategy.
2. Explain the nature and components of strategy.
3. What are the various levels at which a strategy may exist?
4. Distinguish between corporate level strategy and business level strategy.
5. State various schools of thought regarding strategy formation.
6. Name at least four Indian Companies under each of the grand strategies.
7. Explain the significance and limitations of corporate strategy.
8. Write notes on the following:
   (a) Vector
   (b) Synergy
   (c) Business Level Strategy.
9. "Corporate level strategies are important for business level strategies" comment.
10. Name three companies and illustrate their corporate level strategies.
11. Discuss the need for companies to go global. What compels companies to go global?
12. Having decided to go global, what are the strategic alternatives available for a company?
13. List the various modes of entry into global markets. Discuss the merits and demerits of each mode.
14. Explain the application of IT in corporate.
15. What do you understand by competition?
16. What is competitor learning?

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17. What are different competitor learning models?
18. Discuss competitor strategies.
19. Discuss total quality management.
20. What is quality?
21. Discuss brand strategy.
22. Define Benchmarking. Define it's role in improvement of organizational efficiencies
23. What are various kinds of challenges faced during the process of benchmarking?
24. Benchmarking is a continuous process. Express your opinion in favor or against it giving reasons.
25. What the various challenges especially in the area of Human Resources faced during Benchmarking process?
26. Explain various supply chain processes for an integrated SCM. Are there any other processes that you can think of?

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