International Economics Business and Management Strategy

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1.1 Manager and managerial work

1.1.1 Manager in general

Manager is a person who is responsible for the working performance of a group of people as a team. Manager has formal authorities to commit organizational resources to achieve certain goals. The concepts of manager and management are intertwined. From the viewpoint of P. Drucker, management is the specific practice that converts a mob into an effective, goal-directed, and productive group. The term management refers to the process of using organizational resources to achieve organizational objectives through such functions as: planning, organizing (and staffing), leading (and motivating), and controlling.

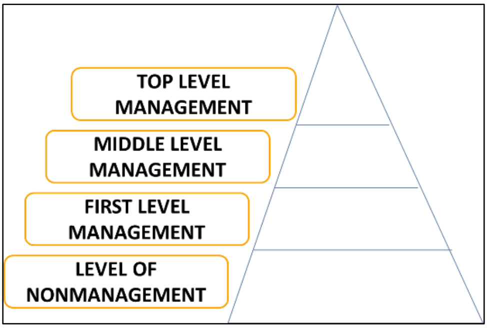
Level of management

Another way of understanding the nature of a manager's job is to examine the three levels of management hierarchy. There are progressively fewer employees at each higher managerial level. The largest number of people is at the bottom (non-management) level of an organization. Most people who enter the carrier of management aspire to become *strategic or top-level managers* or executive managers who are empowered to make major decisions affecting the present and future shape of the firm. Only a top-level manager would have the authority to purchase another company, initiate a new product line, hire or fire people. Top-level managers are: chairman of the board, Chief Executive Officer, president, chancellor. They give organization general direction; they decide where it is going and how it will get there.

Middle-level managers are neither executive nor first-level supervisors. They serve as a link between the two groups. Middle-level managers conduct most of the coordination activities within the firm as they disseminate information to upper and lower levels. The jobs of middle-level managers vary substantially in terms of responsibility and income. A branch manager in a large firm might be responsible for over 100 workers. In contrast, an executive manager in a small manufacturing firm might have only 20 subordinate people. Other important tasks for middle-level managers include helping the firm undertake profitable new ventures and finding creative ways to reach goals. They are: director, branch manager, department chairperson.

Managers who supervise operatives are referred to as *first-level managers*, first-line managers, or supervisors. First-level managers are usually promoted from production or clerical positions into supervisory positions. Many of first-level managers are career school graduates who are familiar with modern management techniques. The current emphasis on productivity and quality has elevated the status of many supervisors. The typical works performed by first-level managers often are newspaper carriers, dining room manager, service station manager, maintenance supervisor, or department manager in a retail store. They are: supervisor, office manager, crew chief. They help to shape the attitudes of new employees toward the firm. Newcomers who listen to and respect their first-level manager tend to stay with the firm longer otherwise they tend to leave the firm early.

Illustration 1: Levels of management



Source: Own development.

Types of managers

The functions performed by managers can also be understood by describing different types of managerial jobs. The management jobs discussed here are functional and general managers, administrators, entrepreneurs, small-business owners and team leaders. *Functional managers* supervise the work of employees engaged in specialized activities, such as accounting, engineering, quality control, food preparation, marketing, sales, and telephone installation. *General managers* are responsible for the work of several different groups that perform a variety of functions. Reporting to the general plant manager are a number of departments engaged in both specialized and generalized work, such as plant manufacturing, plant engineering, labor relations, quality control, safety, and information systems. Branch managers also are general managers if employees from different disciplines report to them. Six key tasks forming the foundation of general manager's job are (Andrall 1989):

- Shaping the work environment-setting up performance standards.
- Crafting a strategic vision-describing where the organization is headed.
- Allocating resources-deciding who gets how much money, people, material, and access to the managerial information.
- Developing managers-preparing people for their first and more advanced managerial jobs.
- Building the organization-solving critical problems so the organization can move forward.
- Overseeing operations-running the business, spotting problems, and solving them.

Administrator is typically a manager who works in a public or nonprofit organization rather than in a business firm. Among these managerial positions are hospital administrators. Managers in all types of educational institutions are referred to as administrators. An employee is not an administrator in the managerial sense unless he or she supervises others.

Millions of students and employees dream of turning an exciting idea into a successful business. An *entrepreneur* is a person who founds and operates an innovative business. Entrepreneurs are the creative forces of the economy, offering new ideas and bringing about improvement for human kind. After the entrepreneur develops the business into something bigger than he or she can handle alone or with the help of a few people, that person becomes a general manager. Similar to an entrepreneur, *small business owners* typically invest considerable emotional and physical energy into their firms. They need an innovative idea to be an entrepreneur. Simply running a franchise minimarket does not make a person an entrepreneur.

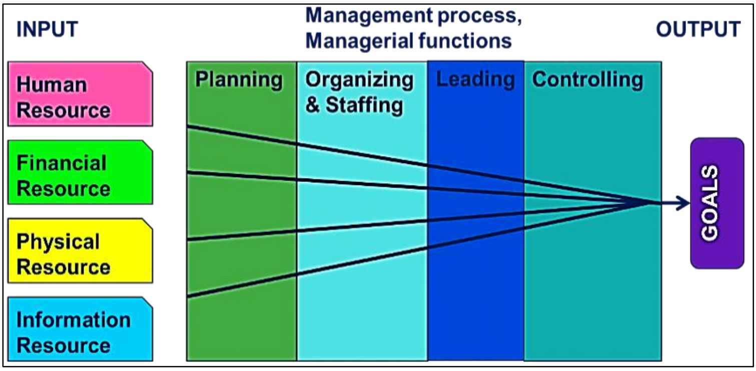
A major development in types of managerial positions due to the popularity of teamwork concept is the emergence of *team leader*. A manager in such a position coordinates the work of a small group of people, acting as a facilitator or catalyst. Team leaders are found at several organizational levels, and are sometimes referred to as project managers, program managers or process managers. That the term team could also refer to an executive team, yet a top executive almost never carries the title team leader.

1.1.2 Management process

A helpful approach to understanding managers' jobs is to regard them as processes. A process is a series of actions that achieves something, making a profit or providing a service, for example. To achieve an objective, the manager uses resources and carries out 04 major managerial functions: planning, organizing, leading, and controlling.

Managers use available resources to accomplish their purposes. Managers' resources can be divided into four types: human, financial, physical, and informational. *Human resources* are the people needed to get the job done, for example manufacturing technicians, sales representatives, information technology specialists, network of dealers. *Financial resources* of businesses are profits and investments from stockholders. Occasionally, businesses must occasionally borrow cash to meet payroll or to pay for supplies. The financial resources of community agencies come from tax revenues, charitable contributions and government grants. *Physical resources* are tangible goods and real estate, including raw materials, office space, production facilities, office equipment, and vehicles. *Information resources* are the data that the manager and the organization use to get the job done.

Illustration 2: Managerial process



Source: Own development

To accomplish goals, the manager performs four managerial functions. These functions are planning, organizing (and staffing), leading (and motivating), and controlling. Planning involves goals setting and figuring out the ways of reaching them. *Planning* is considered the central function of management, and it pervades everything a manager does. Decision making is usually a component of planning, because choices have to be made in the process of planning as it contributes heavily to the performance of other management functions. For example, managers must make plans to do an effective job of staffing the organization. Planning is also part of marketing, for example, plans to expand product line beyond the internal market. *Organizing* is the process of making sure that the necessary, resources are available to carry out a plan and achieve organizational goals. Organizing involves assigning activities, dividing work into specific jobs and tasks. A-nother major aspect of organizing is departmentalizing organization into units or logical subdivisions. Staffing involves making sure that there are the necessary human resources to achieve organizational goals. Staffing is such a major activity that it is sometimes classified as a function separate from organizing. *Leading* is influencing others to achieve organizational objectives. As a consequence, it involves energizing, directing, activating, and persuading others. Leadership involves dozens of interpersonal processes: motivating, communicating, coaching, and showing group members how they can reach their goals. The leadership aspect of management focuses on inspiring people and bringing about change, whereas the other three functions focus more on maintaining a stable system. *Controlling* is ensuring that performance conforms to plans. It is comparing actual performance to a predetermined standard. If there is a significant difference between actual and desired performance, the manager must take corrective action. A secondary aspect of controlling is determining whether the original plan needs revision, given the realities of the day. The controlling function sometimes causes a manager to return to the planning function temporarily to fine-tune the original plan.

One important way in which the jobs of managers differ is in the relative amounts of time spent on planning, organizing and staffing, leading, and controlling. Executives ordinarily spend much more time on strategic (high-level and long-range) planning than do middle- or first-level managers (Allen 1989). Lower-level managers are more involved with day-by-day and other short-range planning. One notable difference in time allocation is that, compared to middle managers and executives, first-level managers and team leaders spend more time in face-to-face leadership of employees, meanwhile executives spend most of their time monitoring the business environment. Such monitoring is a form of controlling. By analyzing what is going on in the outside world, the manager can help the firm compete effectively. There are many differences between the nature and the job of the manager now and of the manager in the past. Those differences are illustrated below.

Table 1: Manager's characteristics

Manager in the past	Manager at present
To be a boss	To be a sponsor, team leader, consultant
Follows command	Deals with people to get the job done
Works within organizational structure	Change or break organizational structure
Make decision alone	Make decision jointly
Hoards information	Shere information
Master one major discipline	Master many managerial disciplines
Discipline oriented	Result oriented

Source: Own development

1.1.3 Managerial roles

To further understand the manager's job, it is worthwhile to examine the various roles managers play. A role, in the business context, is an expected set of activities or behaviors stemming from a job. Henry Mintzberg conducted several landmark studies of managerial roles (Mintzberg 1973), later other researchers extended his findings (Kenneth 1998). In this section, 17 roles delineated by these researchers appear under 04 categories related to human relation, information and decision making or 10 roles appear under the 04 major managerial functions they pertain to most closely. They serve as a proof of richness and complexity of managerial work.

Table 2: Managerial roles

Managerial Roles	
Human relation	Representator
	Leader
	Connector
Information	Collector
	Processor
	Deliverer
Decision making	Entrepreneur
	Resource distributor
	Conflict solver
	Negotiator

Source: Own development

Planning: Two managerial roles, strategic planner and operational planner, relate to the planning function.

Strategic planner: Top-level managers engage in strategic planning, usually assisted by input from others throughout the organization. Specific activities in this role include.

a) Setting a development direction

b) Dealing with the external environment

c) Developing corporate policies

Operational planner: Operational plans relate to the day-to-day operation of a company or its unit.

Two such activities are

a) Formulating operating budgets

b) Developing work schedules for the unit supervised

First-level and sometimes also middle-level managers are involved in operational planning.

Organizing: Five roles that relate to the organizing function are organizer, liaison, staffing coordinator, resource allocator, and task delegator.

Organizer: As a organizer, the manager emerges in activities such as

a) Designing the individuals or groups' jobs

b) Designing their assignments

c) Establishing and explaining organizational policies, rules, and procedures; to coordinate the flow of work and information within the unit

Liaison: The purpose of the liaison role is to develop and maintain a network of work-related contacts with people.

To achieve this end, the manager

a) Cultivates relationships with clients or customers

b) Maintains relationships with suppliers, customers, and other persons or groups important to the unit or organization

c) Joins boards, organizations, or public-service clubs that might provide useful, work-related contacts

d) Cultivates and maintains a personal network of in-house contacts through visits, telephone calls, e-mail, and participation in company-sponsored events.

Staffing coordinator: In the staffing role, the managers make sure that competent people fill positions.

Specific activities include

a) Recruiting and hiring
b) Explaining people how their work performance will be evaluated;
c) Evaluating their overall job performance
d) Compensating within the limits of organizational policy
e) Ensuring that people are properly trained
f) Promoting or recommending for promotion
g) Terminating or demoting

Resource allocator: An important part of a manager's job is to divide resources in the manner that best helps the organization.

Specific activities to this end include

a) Authorizing the use of physical resources
b) Authorizing the expenditure of financial resources
c) Discontinuing the use of unnecessary, inappropriate, or ineffective equipment or services

Task delegator: A standard part of manager's job is assigning tasks to people which are

a) Assigning projects or tasks to groups or individuals
b) Clarifying priorities and performance standards for task completion
c) Ensuring that all people are properly committed to effective task performance

Leading: Eight roles have been identified that relate to the leadership function. These roles are figurehead, spokesperson, negotiator, coach, team builder, team player, technical problem solver, and entrepreneur.

Figurehead: Figurehead managers, particularly high-ranking ones, spend some of their time engaging in ceremonial activities. Such activities are entertaining clients, customers or outsiders as an official organization's representative at events or gatherings outside the organization.

Spokesperson: In this role a managers answer letters or inquiries and formally reporting to individuals and groups outside the manager's organization or organizational unit. As a spokesperson, the manager keeps five following groups of people informed about the unit's activities, plans, and capabilities:

a) Upper-level management
b) Clients and customers
c) Suppliers and other professional bodies
d) All staff members and labor unions
e) Press and general public

Negotiator: Part of almost any manager's job is trying to make deals with others for needed resources.

Three specific negotiating activities are

a) bargaining with supervisors for funds, facilities, equipment, or other forms of support
b) bargaining with other units in the organization for the use of staff, facilities, and other forms of support
c) bargaining with suppliers and vendors about services, schedules, and delivery times

Coach: An effective manager takes time coaching.

Specific behaviors in this role include

a) Informally recognizing employee achievements
b) Giving encouragement and reassurance, thereby showing active concern about the professional human resource development
c) Giving feedback about ineffective performance
d) Giving advice on steps to improve people and organization's performance

Team builder: A key aspect of a manager's role is to build an effective team.

Activities contributing to this role include

a) Ensuring that people are recognized for their accomplishments
b) Initiating activities that contribute to high morale, such as giving parties and sponsoring diverse organizational events
c) Holding periodic staff meetings to encourage people to talk about their accomplishments, problems, and concerns

Team player: Three behaviors of the team player are

a) Displaying appropriate personal conduct
b) Cooperating with other units in the organization

c) Displaying loyalty to superiors by fully supporting their plans and decisions

Technical problem solver: It is particularly important to help staff members to solve technical problems.

Two such specific activities related to problem solving are

a) Serving as a technical expert or advisor

b) Performing individual tasks, such as making sales calls or repairing machinery on a regular basis.

Entrepreneur: Managers in large organizations have responsibility for suggesting innovative ideas or furthering the business aspects of the firm.

Three entrepreneurial role activities are

a) Reading publications and professional journals and searching the Web to keep up to date

b) Talking with customers or others in the organization to keep abreast of changing needs and requirements

c) Getting involved in activities outside the unit that could result in performance improvements within

Controlling

Monitor: The activities of a monitor are

a) Developing systems that measure or monitor the overall performance

b) Using management information systems to measure productivity and cost

c) Talking with group members about progress on assigned tasks

d) Overseeing the use of equipment and facilities to ensure that they are properly used and maintained

Controller: Four typical activities of a controller are

a) Participating in grievance resolution within the unit

b) Resolving complaints from customers, other units, and superiors

c) Resolving conflicts among staff members

d) Resolving problems about work flow and information exchange with other units

Managerial work has shifted substantially away from the controller and director role to that of coach, facilitator, and supporter. As reflected in the position of team leader, many managers today deemphasize formal authority and rank. Instead, they work as partners with all staff members to jointly achieve results. Managers today emphasize horizontal relationships and deemphasize vertical, top-down relationships.

1.1.4 Managerial skills

To be effective, managers need to possess technical, interpersonal, conceptual, diagnostic, and political skills. This section will first define these skills and then comment on how they are developed. Whatever the level of management, a manager needs a combination of all five skills.

Technical skill involves an understanding of and proficiency in a specific activity that involves methods, processes, procedures, or techniques. Technical skills include the ability to prepare a budget, lay out a production schedule, program a computer, or demonstrate a piece of electronic equipment. A well-developed technical skill can facilitate the rise into management.

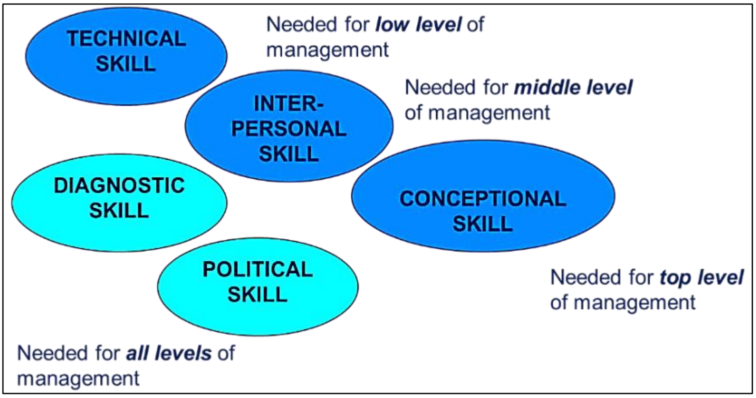
Interpersonal skill (or human relations skill) is a manager's ability to work effectively as a staff member and to build cooperative effort in the unit. Interpersonal skills are more important than technical skills in getting to the top. Communication skills are an important component of interpersonal skills. They form the basis for sending and receiving messages on the job. An important subset of interpersonal skills for managers is multiculturalism, or the ability to work effectively and conduct business with people from different cultures. Closely related is the importance of bilingualism. Being able to converse in a second, non-English language has become an important asset in today's global work environment.

Conceptual skill is the ability to see the organization as a total entity. It includes recognizing how the various units of the organization depend on one another and how changes in any one part affect all the others. It also includes visualizing the relationship of the individual business to the industry and community. For top-level management, conceptual skill is a priority because executive managers have the most contact with the outside world. Conceptual skill has increased in importance for managers because many of them have to rethink substantially how work is performed. One such mindbender is that many organizations are shifting away from departments and toward processes. According to Drucker and many other authorities, the need for knowledge workers and conceptual knowledge will continue to grow (Drucker 1997).

Managers are frequently called on to investigate a problem and to decide on the way to implement a remedy (recommended solutions). *Diagnostic skill* often requires other skills, because managers need to use technical, human, conceptual, or political skills to solve the problems they diagnose.

Political skill is the ability to acquire the power necessary to reach objectives. Other political skills include establishing the right connections and impressing the right people. Political skill should be regarded as a supplement to job competence and the other basic skills. Managers who overemphasize political skill at the expense of doing work of substance focus too much on pleasing company insiders and advancing their own careers. Too much time invested in office politics takes time away from dealing with customer problems and improving productivity.

Illustration 3: Managerial skills



Source: Own development.

Those above presented managerial skills can be developed and acquired through multiple methods of learning. Education for managers begins in school and continues in the form of training and development programs throughout a career. Examples of such a program are a seminar about how to be an effective leader and a workshop about using the Website to expand the business. Developing most of those managerial skills is more complex than developing analytical or operational skills such as computing a return on investment ratio or designing advertising leaflets.

1.2 Planning function

1.2.1 General framework of planning

Planning is important because it contributes heavily to success and to guarantee some control over the future. According to one analysis, the value of planning is in the process itself. By planning, managers can enlarge your mental focus and see the bigger picture. More specifically, planning often leads to improvement in productivity, quality, and financial results. Companies that engaged in strategic (high-level and long-range) planning achieved better financial results. They also did a better job of fitting into their environment. Planning was also found to contribute to corporate growth (Miller and Laura 1994).

Despite the many advantages of planning, it can interfere with the spontaneity necessary for success. Astute business people often seize opportunities as they occur, even if they are not part of any plan. Another problem is that planning can create blinders designed to focus direction and block out peripheral vision. An effective antidote to the disadvantages of planning is to allow some slack in your plan for capitalizing on the unexpected. For example, in planning a job search, leave room to explore opportunities on did not envision in your plan.

Planning is a complex and comprehensive process involving a series of overlapping and interrelated elements or stages. There are at least three types of planning: strategic, tactical, and operational. *Strategic planning* is establishing master plans that shape the destiny of the firm. A second type of planning is needed to support strategic planning. *Tactical planning* translates strategic plans into specific goals and plans that are most relevant to a particular organizational unit. A third type of planning is aimed more at day-to-day operations or the nuts and bolts of doing business. *Operational planning* identifies the specific procedures and actions required at lower levels in the organization. In practice, the distinction between tactical planning and operational planning is not clear cut. However, both tactical plans and operational plans must support the strategic plan. The framework presented below will summarize elements of planning. With slight modification the model could be applied to strategic, tactical, and operational planning. In general planner must a) define the present situation, b) establish goals and objectives, c) forecast aids and barriers to goals and objectives, d) develop action plans to reach goals and objectives, e) develop budgets, f) implement the plans, g) control the plans, and h) make contingency plans. In practice, several of these stages often overlap. The planning steps are not always followed in the order presented. Planners frequently start in the middle of the process, proceed forward, and then return to an earlier step. This change of sequence frequently happens because the planner discovers new information or because objectives change. Also, many managers set goals before first examining their current position.

a) **Define the present situation:** Knowing where you are is critical to establishing goals for change. Defining the present situation includes measuring success and examining internal capabilities and external threats. *Internal capabilities* refer to the strengths and weaknesses of the firm, or organizational unit, engaging in planning. *External threats and opportunities* include competition in the sector, economic crises, and sudden currency fluctuations in other countries.

b) **Establish goals and objectives:** The second step in planning is to establish goals and identify objectives that contribute to the attainment of goals. Goals are broader than objectives, whereas objectives function as smaller goals that support the bigger goals.

c) **Forecast aids and barriers:** As an extension of defining the present situation, the manager attempts to predict which internal and external factors will foster or hinder attainment of the desired ends relying on past experience and intuition about the feasibility of further penetration into the global market. Market research also is in use.

d) **Develop action plans**: Goals and objectives are only wishful thinking until action plans are drawn. An *action plan* is the specific steps necessary to achieve a goal or objective.

e) **Develop budgets:** Planning usually results in action plans that require money to implement. However some action plans require almost no cash outlay.

f) **Implement the plans:** If the plans developed in the previous five steps are to benefit the firm, they must be put to use. A frequent criticism of planners is that they develop elaborate plans and then abandon them in favor of conducting business as usual.

g) **Control the plans:** Planning does not end with implementation, because plans may not always proceed as conceived. The purpose of the control process is to measure progress toward goal attainment and to take corrective action if too much deviation is detected. The deviation from expected performance can be negative or positive. The control process allows for the fine tuning of plans after their implementation. One common example of the need for fine tuning is a budget that has been set too high or too low in the first attempt at implementing a plan. A manager controls by making the right adjustment.

h) **Make contingency plans:** Many planners develop a set of backup plans to be used in case things do not proceed as hoped. A contingency plan is an alternative plan to be used if the original plan cannot be implemented or a crisis develops. Contingency plans are often developed from objectives in earlier steps in planning. The plans are triggered into action when the planner detects, however early in the planning process, deviations from objectives. Construction projects, such as building a retail supercenter, are particularly prone to deviations from completion dates because so many different contractors and subcontractors are involved.

Illustration 4: Procedure of planning

Source: Own development

1.2.2 Strategic planning

The framework for planning can be used to develop and implement strategic plans, as well as tactical and operational plans. In an increasingly globalizing world, the output of strategic planning is a penetration of international markets. The emphasis of strategic planning in the current era is to help the firm move into emerging markets, or invent the future of the firm. Strategic planning should result in managerial workers throughout the organization thinking strategically. This would include wondering about how the firm adapts to its environment and how it will cope with its future. A strategically minded worker at any level would think, "How does what I am doing right now support corporate strategy?" More about strategic planning and management will be developed in the part B of this book.

1.2.3 Operating plans, policies, procedures and rules

Strategic plans are formulated at the top of the organization. Four of the vehicles through which strategic plans are converted into action are operating plans, policies, procedures, and rules.

Operating plans are the means through which strategic plans alter the destiny of the firm. Operating plans involve organizational efficiency (doing things right), whereas strategic plans involve effectiveness (doing the right things). Both strategic and operational plans involve such things as exploring alternatives and evaluating the effectiveness of the plan. In a well-planned organization, all managers are responsible for making operating plans that mesh with the strategic plans of the business. Operational plans (or operating plans) provide the details of how strategic plans will be accomplished. Operating plans focus more on the firm than on the external environment. Operating plans tend to be drawn for a shorter period than strategic plans. An example of operation plan is "How to reach $300M turnover and $100M revenue in 2018 by all sales departments".

Policies are general guidelines to follow in making decisions and taking action; as such, they are plans. Many policies are written; some are unwritten, or implied. Policies are designed to be consistent with strategic plans and yet allow room for interpretation by the individual manager. One important managerial role is interpreting policies for employees. Policies are developed to support strategic plans in each area of the firm. Many firms have strict policies against employees accepting gifts and favors from vendors or potential vendors. Examples of policies are: All staff members are required to get adequate training before starting certain specific tasks; all important decisions should be taken collectively by top management.

Procedures are considered plans because they establish a customary method of handling future activities. They guide action rather than thinking, in that they state the specific manner in which a certain activity must be accomplished. Procedures exist at every level in the organization, but they tend to be more complex and specific at lower levels. Examples are: Procedure to deal with unsatisfied customer who wants to return a purchased product; procedure for receiving and realizing orders from customers.

Rules are specific courses of action or conduct that must be followed; it is the simplest type of plan. Ideally, each rule fits a strategic plan. In practice, however, many rules are not related to strategy. When rules are violated, corrective action should be taken. Examples of rule are: All staff members should start their workday at 8AM; smoking is forbidden at workplace; wearing uniforms is obligatory while contacting with customers.

1.2.4 Management by objectives

Management by objectives (MBO) is a systematic application of goal setting and planning to help individuals and firms to be more productive. An MBO program typically involves people setting many objectives for themselves. However, management frequently imposes key organizational objectives upon people. There are two ways of goal setting to be applied jointly which are presented below.

Table 3: Goals setting

Goals planning	Top down	Bottom up
Advantages:	Consistency and sustainability	Flexibility and close to the reality
Disadvantages:	Bureaucracy and not close to the reality	Lack of consistency and sustainability

Source: Own development

The assumptions of MBO program are as follow

- Organization's and individual goals should be consistent
- All staff members are highly motivated and responsible, creative and proactive toward common goals
- Commitment of top management toward common goals
- Periodical control is needed to check and adjust the plan

An MBO program usually involves sequential steps within a procedure, which are presented in the following list.

1. Establishing organizational goals

Top-level managers set organizational goals to begin the entire MBO process. Quite often these goals are strategic. A group of executives might decide upon the strategic goal of improving the services offered to the community of customers. After these broad goals are established, managers determine what the organizational units must accomplish to meet these goals.

2. Establishing unit objectives

Unit heads then establish objectives for their units. A cascading of objectives takes place as the process moves down the line. Objectives set at lower levels of the firm must be designed to meet the general goals established by top management. Lower-level managers and operatives provide input because a general goal usually leaves considerable latitude for setting individual objectives to meet that goal.

3. Reviewing staff members' proposals

At this point, staff members make proposals about how they will contribute to unit objectives. Each staff member is also given the opportunity to set objectives in addition to those that meet the strategic goals.

4. Negotiating or agreeing

Managers and staff members confer together at this stage to either agree on the objectives set by the staff members or negotiate further.

5. Creating action plans to achieve objectives

After the manager and staff members agree upon objectives, action plans must be defined. Sometimes the action plan is self-evident.

6. Reviewing performance

Performance reviews are conducted at agreed-upon intervals, typically a semiannual or annual. Persons receive good performance reviews to the extent that they attain most of their major objectives. When objectives are not attained, the manager and the staff member mutually analyze what went wrong. Equally important, they discuss corrective actions. New objectives are then set for the next review period. Because establishing new objectives is part of an MBO program, management by objectives is a process that can continue for the life of an organization. Here are some advantages and disadvantages of MBO program and differences between MBO program and management by process approach.

Table 4: Advantages and disadvantages of MBO

Advantages of MBO	Disadvantages of MBO
1. Stimulate creativity by goals self-proposing	1. Goals system is a subject of change due to turbulent business environment
2. Easy to control everything	2. So much time and effort to create goals system
3. Tasks allocated clearly imply self-control and self-responsibility	3. Goals system is hard to implement in front of internal conflicts
4. Encourage staff to engage and identify with organization	4. Not easy when staff are unqualified and highly irresponsible

Source: Own development

Table 5: MBO and MBP (Management by process)

Riteria	Management by Ovectives MBO	Management by Process MBP
1. Orientation	Increase total revenue, decrease total cost	Increase market share and trust
2. Leadin•rule	Power concentration	Power decentralization
3. Organization structure	Vertical, thick	Horizontal, slim
4. Dominating resource	Financial resource	Human & information resource
5. Workforce	Highly specialized	Multifunctional
6. Labor relationship	Individual	Group
7. Staff exectation	Security and protection	Creative cooperation

Source: Own development

1.3 Organizing function

1.3.1 Bureaucracy and departmentalization

Bureaucracy

A bureaucracy is a rational, systematic, and precise form of organization in which rules, regulations, and techniques of control are precisely defined. It is helpful to think of bureaucracy as the traditional form of organization. Other structures are usually variations of, or supplements to, bureaucracy. Although most big organizations are bureaucratic, small firms can also follow the bureaucratic model. The entire traditional, or classical, school of management contributes to our understanding of bureaucracy. Yet the essence of bureaucracy can be understood by identifying its major characteristics and principles as listed next:

- **Hierarchy of authority:** The dominant characteristic of a bureaucracy is that each lower organizational unit is controlled and supervised by a higher one. Most of the formal authority is concentrated at the top. The amount of formal authority decreases while moving down to lower levels.
- **Unity of command:** A classic management principle, unity of command, states that each subordinate receives assigned duties from one superior only and is accountable to that superior. In the modern organization many people serve on projects and teams in addition to reporting to their regular boss, thus violating the unity of command.
- **Task specialization:** In a bureaucracy, division of labor is based on task specialization. To achieve task specialization, organizations have separate departments, such as manufacturing, marketing, custo-

mer service, human resource, finance, and information systems. Employees assigned to these organizational units have specialized knowledge and skills that contribute to the overall effectiveness of the firm.

- **Duties and rights of employees:** Bureaucracies are characterized by rules that define the rights and duties of employees. In a highly bureaucratic organization, each employee has a precise job description, and policy and procedure manuals are current and accessible.
- **Definition of managerial responsibility:** In bureaucracy, the responsibility and authority of each manager is defined clearly in writing. When responsibility is defined in writing, managers know what is expected of them and what limits are set to their authority. This approach minimizes overlapping of authority and accompanying confusion.
- **Line and staff functions:** A bureaucracy identifies the various organizational units as being line or staff. Line functions are those involved with the primary purpose of an organization or its primary outputs. In a bank, people who supervise work related to borrowing and lending money are line managers. Staff functions assist the line functions. Staff managers are responsible for important functions such as human resources and purchasing. Although staff functions do not deal with the primary purposes of the firm, they are essential for achieving the organization's mission.

Bureaucracy has made modern civilization possible. Without large, complex organizations to coordinate the efforts of thousands of people, we would not have airplanes, automobiles, skyscrapers, universities, vaccines, or space satellites. Many large bureaucratic organizations are successful and continue to grow at an impressive pace. Despite the contributions of bureaucracy, it has several key disadvantages. Above all, a bureaucracy can be rigid in handling people and problems. Its well-intended rules and regulations sometimes create inconvenience and inefficiency. Other frequent problems in the bureaucratic form of organization are frustration and low job satisfaction. The sources of these negative feelings include red tape, slow decision making, and an individual's limited influence on how well the organization performs.

Table 6: Advantages and disadvantages of bureaucracy

Advantages	Disadvantages
Traditional, oldest form of organization structure.	Rigid in handling people and problems
Foundation of today' civilization and technology development	Inconvenient and inefficient in fast changing time Red tape and slow decision making
Substitute or supplement to modern form of organization structure	Limited individual influence on organization's performance

Source: Own development

Departmentalization

In bureaucratic and other forms of organization, the work is subdivided into departments, or other units, to prevent total confusion. The process of subdividing work into departments is called departmentalization. This section will use charts to illustrate four frequently used forms of departmentalization: functional, territorial, product-service, and customer. In practice, most organization charts show a combination of the various types. The most appropriate form of departmentalization is the one that provides the best chance of achieving the organization’s objectives. The organization’s environment is an important factor in this decision. Assume that a company needs to use radically different approaches to serve different customers. It would organize the firm according to the customer served.

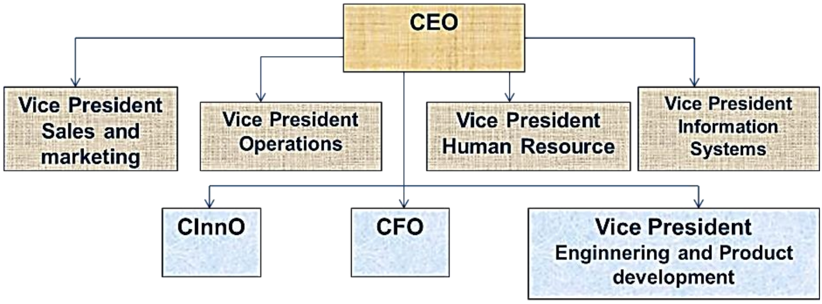
Functional departmentalization is an arrangement in which departments are defined by the function each one performs, such as accounting or purchasing. Dividing work according to activity is the traditional way of organizing the efforts of people. In a functional organization, each department carries out a specialized activity, such as information processing, purchasing, sales, accounting, or maintenance. The advantages and disadvantages of the functional organization, the traditional form of organization, are the same as those of the bureaucracy. Functional departmentalization works particularly well when large batches of work have to be processed on a recurring basis and when the expertise of specialists is required.

Table 7: Advantages and disadvantages of functional departmentalization

Advantages	Disadvantages
• Employing highly specialized experts	• Violate one superior rule
• Manager as non expert	• Hard to coordinate all departments
• Easy to train and look for managers	• Hard to clearly determine responsibility of workers

Source: Own development

Illustration 5: Functional departmentalization



Source: Own development

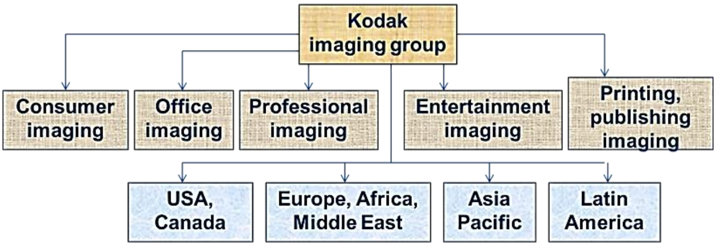
Territorial departmentalization is an arrangement of departments according to the geographic area served. In this organization structure, all the activities for a firm in a given geographic area report to one manager. Marketing divisions often use territorial departmentalization; the sales force may be divided into the northeastern, southeastern, midwestern, northwestern, and southwestern regions. Given that territorial departmentalization divides an organization into geographic regions, it is generally well suited for international business. Yet a new global business trend is to develop a central structure that serves operations in various geographic locations. A key advantage of territorial departmentalization is that it allows decision making at a local level, where the personnel are most familiar with the problems. Territorial departmentalization also has some potential disadvantages. The arrangement can be quite expensive because of duplication of costs and effort. For instance, each region may build service departments that duplicate activities carried out at headquarters. A bigger problem is that top-level management may have difficulty controlling the performance of field units.

Table 8: Advantages and disadvantages of territorial departmentalization

Advantages	Disadvantages
• Low level managers empowerment	• More staff is needed for managerial and control works
• Focus on local market	• Hard to maintain central services and local services are needed
• Competitive edge based on local effectiveness	
• Direct communication with locals	• Hard to control diverse and • spread markets

Source: Own development

Illustration 6: Territorial departmentalization



Source: Own development

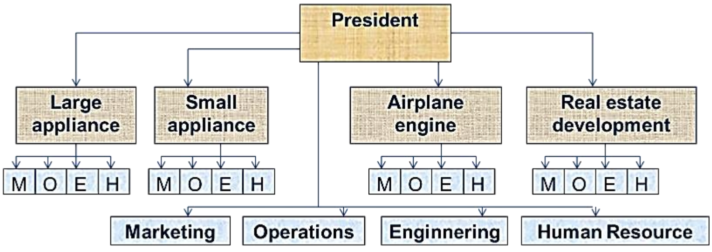
Product-service departmentalization is the arrangement of departments according to the products or services they provide. When specific products or services are so important that the units that create and support them almost become independent companies, product departmentalization makes sense. For example, the manufacture and sale of airplane engines is an entirely different business from the development of real estate. Organizing by product line is beneficial because employees focus on a product or service, which allows each department the maximum opportunity to grow and prosper. Similar to territorial departmentalization, grouping by product or service helps train general managers, fosters high morale, and allows decisions to be made at the local level. Departmentalization by product has the same potential problems as territorial departmentalization. It can be expensive, because of duplication of effort, and top-level management may find it difficult to control the separate units.

Table 9: Advantages and disadvantages of product and service departmentalization

Advantages	Disadvantages
• Concentrate on product development, its vision and market	• Different management skills for different products and their cost
• Focus all resources (capital, technology) to compete on cost	• Weak interdepartmental cooperation, no interest in total organizational developmen

Source: Own development

Illustration 7: Product service departmentalization



Source: Own development

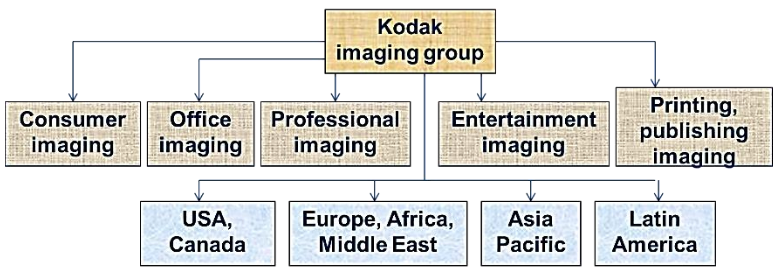
Customer departmentalization creates a structure based on customer needs. When the demands of one group of customers are quite different from the demands of another, customer departmentalization is often the result. Many insurance companies, for example, organize their efforts into consumer and commercial departments. Customer departmentalization is similar to product departmentalization, and sometimes the distinction between these two forms of organization is blurry.

Table 10: Advantages and disadvantages of customer departmentalization

Advantages	Disadvantages
• Develop considerate customer service	• Different management skills needed for different groups of customers, high management costs
• Concentrate resources (capital, technology) to compete on cost, quality and customer care	• Weak interdepartmental cooperation, no interest in total organizational development

Source: Own development

Illustration 8: Customer departmentalization



Source: Own development

1.3.2 Latest forms of organization

To overcome some of the problems of the bureaucratic and functional forms of organization, several other organization structures have been developed. Typically, these non-bureaucratic structures are used to supplement or modify the bureaucratic structure. Virtually all large organizations are a combination of bureaucratic and less bureaucratic forms. This section will describe three popular modifications of bureaucracy: the matrix organization; flat structures, downsizing, and outsourcing; and organization by process.

The matrix/project organization

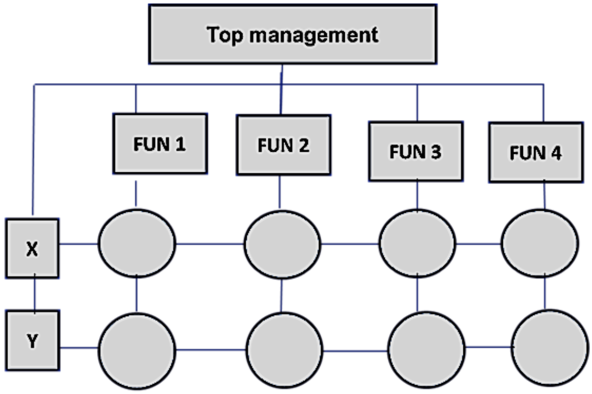
Departmentalization tends to be poorly suited to performing special tasks that differ substantially from the normal activities of a firm. One widely used solution to this problem is project organization**,** in which a temporary group of specialists works under one manager to accomplish a fixed objective. The project organization is used most extensively in the military, aerospace, construction, motion-picture, and computer industries. Project management is so widespread that software has been developed to help managers plot out details and make all tasks visible. The best-known application of project management is the matrix organization, a project structure imposed on top of a functional structure. Matrix organizations evolved to capitalize on the advantages of project and matrix structures while minimizing their disadvantages. The project groups act as mini-companies within the firm in which they operate. However, the group usually disbands when its mission is completed. In some instances, the project is so successful that it becomes a new and separate division of the company. It should be noted that functional managers exert some functional authority over specialists assigned to the projects. For example, the quality manager would occasionally meet with the quality specialists assigned to the projects to discuss their professional activities. The project managers have line authority over the people assigned to their projects. A distinguishing feature of the matrix is that the project managers borrow resources from the functional departments. Also, each person working on the project has two superiors: the project manager and the functional manager. Users of the matrix structure include banks, insurance companies, aerospace companies, and educational institutions. Colleges often use matrix structures for setting up special-interest programs. Among them are African-American studies, adult education, and industrial training. Each of these programs is headed by a director who uses resources from traditional departments.

Table 11: Advantages and disadvantages of matrix organization

Advantages	Disadvantages
• Respond to the highly changeable business conditions	• Conflict and dispute between project managers and heads of departments
• Easy to form and dissolve quickly as well	• Manager should have greate impact and authority
• Less costly, effective use of (human) resource	• Restriction in use due to certain competencies are needed

Source: Own development

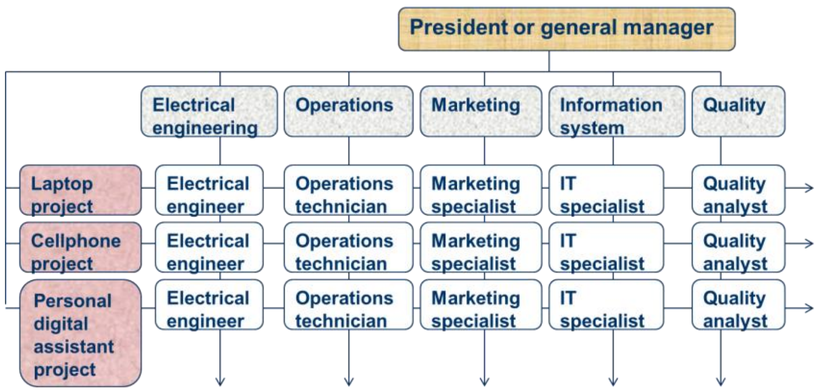
Illustration 9: Matrix organization (1)



X, Y... – product lines, technologies, projects or markets
FUN1, 2, 3... – functions or branches in enterprise

Source: Own development

Illustration 10: Matrix organization (2)



Source: Own development

Flat structures

Organizations with a bureaucratic structure tend to accumulate many layers of management and often too many employees in general. At times, too many staff groups are present to assist line groups. Top management may then decide to create a flat organization structure, a form of organization with relatively few layers. Most large business corporations have become flatter during the past decade. A flat organization structure is less bureaucratic for two reasons. First, few managers are available to review the decisions of other workers. Second, because the chain of command is shorter, people are less concerned about authority decisions. Managers and workers at lower levels can then make decisions more independently. An important consequence of creating flat structures is that the remaining managers have a larger span of control, the number of workers reporting directly to them. A large span of control works best when the managers and staff members are competent and efficient. When staff members are doing relatively similar work, the manager can also supervise more people.

Downsizing

Downsizing can be looked at as a way of simplifying an organization to make it less bureaucratic. Under ideal circumstances, downsizing also leads to better profits and higher stock prices. In fact, the motivation behind most downsizings of both assets and workers is to reduce costs, thereby increasing profits. Unless downsizing is done carefully it can backfire in terms of decreasing efficiency. A specific complaint about downsizing is that it creates job demands that surviving managers do not have the experience or skill to handle (Koretz 1995). Employers that maintained stable employment levels had only a negligible decline in return on investment. The companies with the largest number of layoffs also experienced the greatest declines in return on assets. A starting point in effective restructuring is to eliminate low-value and no-value activities. This is activity-based reduction, a new term for systematically comparing the costs of a firm's activities to their value to the customer. Keeping the future work requirements in mind is another factor contributing to effective restructuring. The answer to overstaffing is not to let go of people who will be an important part of the firm's future. Sensible criteria should be used to decide which workers to let go. In general, the poorest performers should be released first. Offering early retirement and asking for voluntary resignations also leads to less disruption. An important strategy for getting layoff survivors refocused on their jobs is for management to share information with employees. Information sharing helps quell rumors about further reductions in force. Listening to employees helps soften the shock of restructuring. Many survivors will need support groups and other sympathetic ears to express sorrow over the job loss suffered by coworkers. A final suggestion here is for management to be honest with workers. Managers should inform people ahead of time if layoffs are imminent or even a possibility. Workers should be told why layoffs are likely, who might be affected, and in what way. Employees will want to know how the restructuring will help strengthen the firm and facilitate growth.

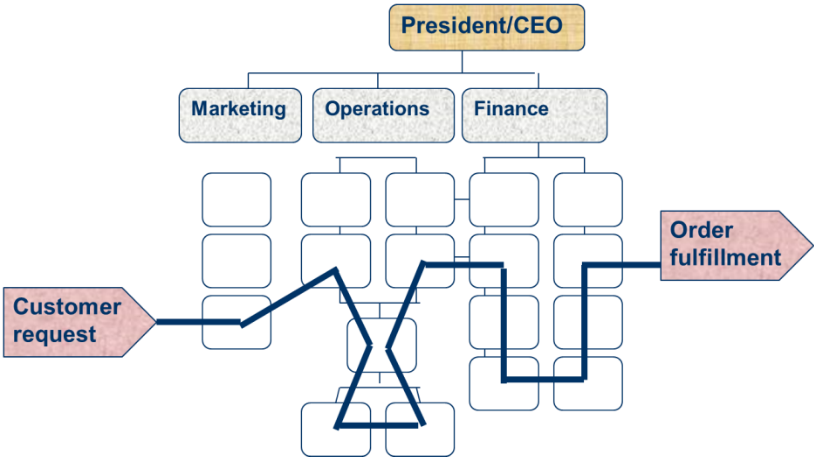
Outsourcing

An increasingly common practice among organizations of all types and sizes is to outsource, or have work performed for them by other organizations. By outsourcing, a company can reduce its need for employees and physical assets and reduce payroll costs. Many companies outsource work to geographic areas where workers are paid lower wages. Among the many examples of outsourcing would be for a small company to hire another company to manage its payroll and employee benefits, or for a large manufacturing firm to have certain components made by another firm. The outsourcing movement has been a boon for small and medium-size firms who perform stable work for larger organizations. Despite this high volume of business, many companies are dissatisfied with the results of outsourcing. A possible reason for moderate satisfaction with outsourcing is that large companies establish such demanding standards on their suppliers and subcontractors. Large companies often outsource work to a small, select number of companies.

Organization by process

In the bureaucratic form of organization, people in the various organization units are assigned specialized tasks such as purchasing, manufacturing, selling, and shipping. Another approach to organization structure is for a group of people to concern themselves with a process, such as filling an order or developing a new product. Instead of focusing on a specialized task, all team members focus on achieving the purpose of all the activity, such as getting a product in the hands of a customer. In a process organization, employees take collective responsibility for customers (Majchrzak, Wang 1996). One approach to switching from a task emphasis to a process emphasis is through reengineering, the radical redesign of work to achieve substantial improvements in performance. Reengineering searches for the most efficient way to perform a large task. As a result of reengineering, work is organized horizontally rather than vertically. The people in charge of the process function as team leaders who guide the team toward completion of a core process such as new product development or filling a complicated order. Key performance objectives for the team would include reducing cycle time, costs time, and throughput time. A major challenge in creating a horizontal organization is breaking the functional mindset. Nevertheless, many organizations have achieved success with teams that focus on delivering a product to the customer. A major hazard with reengineering to form horizontal structures is that many people will lose their jobs. As a result, the work force is demoralized and suspicious, which results in the same high failure rate of downsizing. If horizontal structures increase productivity without creating layoffs, the result is more likely to be beneficial to the organization.

Illustration 11: Process organization



Source: Own development

1.3.3 Delegation, empowerment, decentralization

Collective effort would not be possible, and organizations could not grow and prosper, if a handful of managers did all the work themselves. In recognition of this fact, managers divide up their work. The division can be in one of two directions. Subdividing work in a horizontal direction, through the process of departmentalization, has already been described. The section that follows will discuss the subdivision of work in vertical direction, using the chain of command through delegation and empowerment, and decentralization.

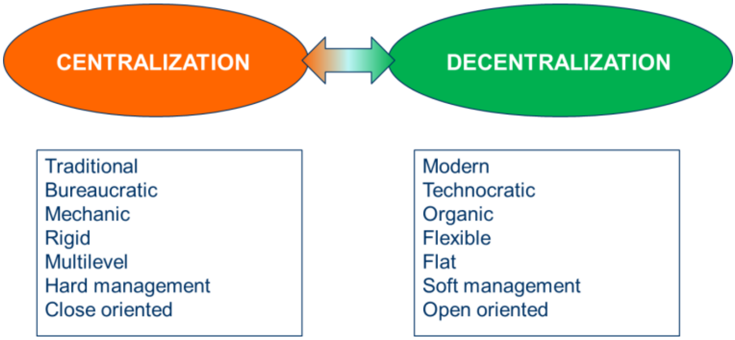
Delegation is an old concept that has been revitalized in the modern organization. It refers to assigning formal authority and responsibility for accomplishing a specific task to another person. If managers do not delegate any of their work, they are acting as individual contributors, not true managers. Delegation is closely tied with empowerment, the process by which managers share power with group members, thereby enhancing employees' feelings of personal effectiveness. Delegation is a specific way of empowering employees, thereby increasing motivation. A major goal of delegation is the transfer of responsibility as a means of increasing one's own productivity. At the same time, delegation allows team members to learn how to handle more responsibility and to become more productive. In downsized organizations, delegation is essential because of the increased workload of managers. As managers are required to assume more responsibility, they must find ways to delegate more work. A major point about delegation is that, although a manager may hold a staff member responsible for a task, the manager has final accountability. If the staff member fails miserably, the manager must accept the final blame. Delegation and empowerment lie at the heart of effective management. Following the eight suggestions presented next improves the manager's chance of increasing productivity by delegating and empowering individuals and teams (Jannet 1995).

- **Assign duties to the right people:** The chances for effective delegation and empowerment improve when capable, responsible, well-motivated staff members receive the delegated tasks. Vital tasks should not be assigned to ineffective performers.
- **Delegate the whole task:** In the spirit of job enrichment, a manager should delegate an entire task to one subordinate rather than dividing it among several. So doing gives the staff member complete responsibility and enhances motivation, and gives the manager more control over results.
- **Give as much instruction as needed:** Some staff members will require highly detailed instructions, while others can operate effectively with general instructions. Many delegation and empowerment failures occur because instruction was insufficient.
- **Retain some important tasks for yourself:** Managers need to retain some high output or sensitive tasks for themselves. In general, the manager should handle any task that involves the survival of the unit. However, which tasks the manager should retain always depend on the circumstances.
- **Obtain feedback on the delegated task:** A responsible manager should not delegate a complex assignment to a subordinate and wait until the assignment is complete before discussing it again. Managers must establish checkpoints and milestones to obtain feedback on progress.
- **Delegate both pleasant and unpleasant tasks:** When staff members are assigned a mixture of pleasant and unpleasant responsibilities, they are more likely to believe they are being treated fairly. Few staff members expect the manager to handle all the undesirable jobs. A related approach is to rotate undesirable tasks among staff members.

- **Step back from the details:** Many managers are poor delegators because they get too involved with technical details. If a manager cannot let go of details, he or she will never be effective at delegation or empowerment.
- **Allow for spending money and using other resources:** To share power is to share spending money. People who have no budget of their own do not have much power. Having a budget, for even such small matters as ordering in dinner for an evening meeting, gives team members a feeling of power. Access to other resources, such as use of advanced information technology equipment and office temporaries, is another meaningful sign of empowerment (Ettore 1997).

Decentralization is the extent to which authority is passed down to lower levels in an organization. It comes about as a consequence of managers delegating work to lower levels. Centralization is the extent to which authority is retained at the top of the organization. In a completely centralized organization, one chief executive would retain all the formal authority. Complete centralization can exist only in a one-person firm. Decentralization and centralization are, therefore, two ends of a continuum. No firm is completely centralized or decentralized. The term decentralization generally refers to the decentralization of authority. However, the term also refers to decentralization by geography. A multi-division firm departmentalized on the basis of territory has a flat organization structure. A flat organization is often referred to as decentralized, but the reference is to geography, not authority. How much control top management wants to retain is the major factor in deciding on how much to decentralize an organization. Organizations favor decentralization when a large number of decisions must be made at lower organizational levels, often based on responding to customer needs. In general, a centralized firm exercises more control over organization units than a decentralized firm. Top management that wants to empower people through such means as teams and horizontal structures must emphasize decentralization. Another important point is that many firms are centralized and decentralized simultaneously. Certain aspects of their operations are centralized, whereas others are decentralized. Central headquarters exercises tight control over some important core technological and financial matters while dispersed individual divisions make human resource and other decisions on their own.

Illustration 12: Centralization versus decentralization



Source: Own development

1.4 Leading function and motivation

1.4.1 Leadership and management

Today's managers must know how to lead as well as how to manage, or their companies will become extinct. Leadership, along with planning, organizing, and controlling is one of the basic functions of management. Three representative distinctions between leadership and management are as follows (Kotter 1997):

- Management is more formal and scientific than leadership. It relies on universal skills, such as planning, budgeting, and controlling. Management is a set of explicit tools and techniques, based on reasoning and testing that can be used in a variety of situations.
- Leadership, by contrast, involves having a vision of what the organization can become. Leadership requires eliciting cooperation and teamwork from a large network of people and keeping the key people motivated, using every manner of persuasion.
- Management involves getting things done through other people. Leadership places more emphasis on helping others to do the things that need to be done to achieve the common vision.

Table 12: Leader versus manager

Leader	Manager
Visionary	Rational
Passionate	Consulting
Creative	Persistent
Flexible	Problem solving

Inspiring	Tough-minded
Innovative	Analytical
Courgeous	Structured
Imaginative	Delibrative
Experimental	Authoritative
Independent	Stabilizing
Shares knowledge	Centralizes knowledge

Source: Own development

Effective leadership and management are both required in the modern workplace. Managers must be leaders, but leaders must also be good managers. Workers need to be inspired and persuaded, but they also need assistance in developing a smoothly functioning workplace. To bring about improved productivity and morale, managers must do two things. First, they use power, authority, influence, and personal traits and characteristics. Second, they apply leadership behaviors and practices.

1.4.2 Power, authority and influence

Leaders influence people to do things through the use of power and authority. Power is the ability or potential to influence decisions and control resources. Powerful people have the potential to exercise influence, and they exercise it frequently. For example, a powerful executives might influence an executives from another company to do business with his or her company Factors within a person, such as talent or charm, help them achieve power. Authority is the formal right to get people to do things or the formal right to control resources. Only the organization can grant authority. To understand how leaders use power and authority, we examine the various types of power, influence tactics. Understanding these different approaches to exerting influence can help a manager become a more effective leader.

Types of power

Leaders use various types of power to influence others. However, the power exercised by team members, or subordinates, acts as a constraint on how much power leaders can exercise. The list that follows describes the types of power exercised by leaders and sometimes by staff members in reverse, upward to the leader (French, Raven 1960).

- Legitimate power is the authentic right of a leader to make certain types of requests. These requests are based on internalized social and cultural values in an organization. It is the easiest type of influence for most subordinates to accept. For example, all employees accept the manager's authority to conduct a performance appraisal.

- Reward power is a right to control over rewards of value to the staff members. Exercising this power includes giving pay rise and recommending employees for promotion.
- Coercive power is a right to control over punishments including assignment to undesirable working hours, demotion, and firing. Effective leaders generally avoid heavy reliance on coercive power, because it creates resentment and retaliation.
- Expert power derives from a leader's job-related knowledge. This type of power stems from having specialized skills, knowledge, or talent. Expert power can be exercised even when a person does not occupy a formal leadership position. A widely used form of expert power is the control of vital information. If a person controls information other people need, power will flow to that person. Having valuable contacts, such as knowing people prepared to invest in startup companies, is a form of controlling vital information.
- Referent power refers to the ability to control based on loyalty to the leader and the staff member's desire to please that person. Some of the loyalty to the leader is based on identification with the leader's personal characteristics. Referent power is based on the subjective perception of the leader's traits and characteristics.
- Subordinate power is any type of power that employees can exert upward in an organization, based on justice and legal considerations. For example, few staff members would accept an order to regularly carry out actions that harm the environment, such as dumping toxins. A female employee has the legal right to refuse sexual advances from the boss.

Influence tactics

In addition to various types of power, leaders use many other influence tactics to get things done. Seven frequently used influence tactics are as follows.

- Leading by example means that the leader influences staff members by serving as a positive model of desirable behavior. A manager who leads by example shows consistency between actions and words.

- Assertiveness refers to being forthright in your demands. It involves a manager expressing what should be done and how the manager feels about it. Assertiveness, as this example shows, also refers to making orders clear.
- Rationality means appealing to reason and logic, and it is an important part of persuasion. Rational persuasion has increased in importance because many managers have limited extent of formal and they must manage across different functions.8 Pointing out the facts of a situation to staff members to get them to do something is an example of rationality.
- Ingratiation refers to getting somebody else to like you, often through the use of political skill. A typical ingratiating tactic would be to act in a friendly manner just before making a demand. Effective managers treat people well consistently to get cooperation when it is needed.
- Exchange is a method of influencing others by offering to reciprocate if they meet your demands. Leaders with limited expert, referent, and legitimate power are likely to use exchange and make bargains with subordinates. Using exchange is like using reward power. The emphasis in exchange, however, is that the managers go out of their way to strike a bargain that pleases the staff members.
- Coalition formation is a way of gaining both power and influence. A coalition is a specific arrangement of parties working together to combine their power, thus exerting influence on another individual or group. The more people you can get on your side, the better.
- Joking and kidding are widely used to influence others on the job. Good natured ribbing is especially effective when a straightforward statement might be interpreted as harsh criticism.

Leaders are unlikely to use all the influence tactics in a given situation. Instead, they tend to choose an influence tactic that fits the demands of the circumstances. In crisis situations the leaders used more expert power, legitimate power, referent power, and upward influence than in non-crisis situations. Upward influence refers to using power to get higher-ranking people to act on one's behalf. The leaders were less likely to consult with subordinates in a crisis situation than in a non-crisis situation (Mulder *et al*. 1986).

Empowerment is emphasized as a way of distributing authority in the organization. Empowerment is similarly a way for leaders to share power. When leaders share power, employees experience a greater sense of personal effectiveness and job ownership. Sharing power with staff members enables them to feel better about themselves and perform at a higher level. Empowered employees perform better to a large extent because they become better motivated. The extra motivation stems from a feeling of being in charge. An important use of empowerment is to enhance customer service. As employees acquire more authority to take care of customer problems, these problems can be handled promptly. A key component of empowerment is the leader's acceptance of the employee as a partner in decision making. Because the staff member's experience and information are regarded as equal to those of the leader, he or she shares control. The partnering approach to empowerment builds trust between the employee and the leader (Navran 1992).

1.4.3 Effective leader and leadership styles

This section of the book will highlight findings about the personal attributes and behaviors of effective managerial leaders. Effective, in this context, means that the leader achieves both high productivity and morale.

Characteristics and traits of effective leaders

Possessing certain characteristics and traits does not in itself guarantee success. Yet effective leaders differ from others in certain respects. Justification for studying leadership traits is that the traits of leaders are related closely to the degree to which they are perceived to be leaders. For example, managers who are perceived to be good problem solvers are more likely to be accepted as leaders than those who are not. Hundreds of human qualities can enhance leadership effectiveness in some situations. The list of traits and characteristics that follows presents the factors most relevant to the largest number of leadership situations (Shelly, Edwin 1991).

- **Drive and achievement motive, and passion:** Leaders are noted for the effort they invest in achieving work goals and the passion they have for work and associates. Drive refers to such behaviors as ambition, energy, tenacity, and initiative. Drive also includes achievement motivation, finding joy in task accomplishment. High achievers find satisfaction in competing challenging tasks, attaining high standards, and developing better ways of doing things. Effective leaders are also passionate about their work.
- **Power motive:** Successful leaders have a strong need to control other people and resources. Power motivation is a strong desire to control others to let them do things on your behalf. A leader with a strong power need enjoys exercising power and using influence tactics.

- **Self-confidence:** Self-confidence contributes to effective leadership in several ways. Above all, self-confident leaders project an image that encourages subordinates to have faith in them. Self-confidence also helps leaders make some of the tough business decisions they face regularly.
- **Trustworthiness and honesty:** Trust is regarded as one of the major leadership attributes. Effective leaders know they must build strong employee trust to obtain high productivity and commitment. Leaders must be trustworthy, and they must also trust their staff members. A major strategy for being perceived as trustworthy is to make your behavior consistent with your intentions. Closely related to honesty and integrity is being open with employees about the financial operations and other sensitive information about the company. Employees should be trained, empowered, and motivated to understand and pursue the company's business goals.
- **Good intellectual ability, knowledge, and technical competence:** An inescapable conclusion is that effective leaders are good problem solvers and knowledgeable about the business or technology for which they are responsible. Intelligent and competent leaders make more effective plans, decisions, and action strategies than do leaders with less intelligence and competence. Similarly, the leader's skills of obtaining, using, and sharing useful knowledge are crucial to success. A formidable characteristic of an intelligent leader is to ask questions that give others insight into the consequences of their demands or positions.
- **Sensitivity to people:** Sensitivity to people means taking people's needs and feelings into account when dealing with them. An effective leader tries not to hurt people's feelings or frustrate their needs. A sensitive leader gives encouragement to subordinates and does not belittle or insult poor performers. Insensitivity can sidetrack a manager's career.
- **Sense of humor:** The effective use of humor is regarded as an important part of a leader's job as it relieves tension, boredom, defuses hostility and helps him or her exert power over the group.
- **Emotional intelligence:** Most effective leaders have a high degree of emotional intelligence. Qualities like good problem-solving ability and technical skills are minimum expectations for demanding leadership positions. Emotional intelligence involves such capabilities as the ability to work with others and effectively

bring about change. Key traits included in emotional intelligence are self-confidence, sense of humor, strong drive to achieve, and persuasiveness.

Behaviors and skills of effective leaders

Traits alone are not sufficient to lead effectively. A leader must also behave in certain ways and possess key skills. Managers must have sound conceptual, interpersonal, technical, and political skills. The following actions or behaviors are linked to leadership effectiveness and skills. An effective leader:

- **Is adaptable to the situation:** Adaptability reflects the contingency viewpoint. If a leader were dealing with psychologically immature subordinates, he or she would have to supervise them closely. Mature and self-reliant subordinates would require less supervision. Also, the adaptive leader selects an organization structure best suited to the situation. The circumstances would determine, for example, if the manager chose a brainstorming group or a committee. Another important aspect of adaptability is for a leader to be able to function effectively in different situations. The ability to size up people and situations and adapt tactics accordingly is a vital leadership behavior. It stems from an inner quality called intuition, a direct perception of a situation that seems unrelated to any specific reasoning process.
- **Provides stable performance:** A manager's steadiness under heavy work-loads and uncertain conditions helps subordinates cope with the situation. Most people become anxious when the outcome of what they are doing is uncertain. When the leader remains calm, employees are reassured that things will work out satisfactorily. Stability also helps the leader meet the expectation that a manager should be cool under pressure. Another asset of being stable is that appearing unstable can prevent a person from obtaining a key position.
- **Demands high standards of performance for group members:** Effective leaders consistently hold staff members to high standards of performance, which raises productivity. Setting high expectations for subordinates becomes a self-fulfilling prophecy. People tend to live up to the expectations set for them by their superiors. Setting high expectations might take the form of encouraging staff members to establish difficult objectives.

- **Provides emotional support to group members:** Supportive behavior toward subordinates usually increases leadership effectiveness. A supportive leader is one who gives frequent encouragement and praise. The emotional support generally improves morale and sometimes improves productivity. Being emotionally supportive comes naturally to the leader who has empathy for people and who is a warm person.
- **Gives frequent feedback:** Giving frequent feedback on their performance is another vital leadership behavior. The manager rarely can influence the behavior of staff members without appropriate performance feedback. Feedback informs employees of how well they are doing, so they can take corrective action if needed. If the feedback is positive, it encourages subordinates to keep up the good work.
- **Has a strong customer orientation:** Effective leaders are strongly interested in satisfying the needs of customers, clients, or constituents. Their strong customer orientation helps inspire employees toward satisfying customers.
- **Recovers quickly from setbacks:** Effective managerial leaders are resilient: They bounce back quickly from setbacks such as budget cuts, demotions, and being fired. Leadership resiliency serves as a positive model for employees at all levels when the organization confronts difficult times.
- **Plays the role of servant leader:** Some effective leaders believe that their primary mission is to serve the needs of their constituents. Instead of seeking individual recognition, servant leaders see themselves as working for the staff members. The servant leader uses his or her talents to help staff members. To be an effective servant leader, a person would need the many leadership traits and behaviors described in this chapter.

Leadership styles

Another important part of the leadership function is leadership style. It is the typical pattern of behavior that a leader uses to influence his or her employees to achieve organizational goals. Several different approaches to describing leadership styles have developed over the years. Most of these involve how much authority and control the leader turns over to the group. This section will describe two classical approaches for categorizing leadership styles: the Leadership Grid styles of leadership, followed by the

Situational Leadership Model, which emphasizes its contingency nature of leadership style.

The leadership continuum, or classical approach, classifies leaders according to how much authority they retain for themselves versus how much they turn over to a group. Three key points on the continuum represent autocratic, participative, and free-rein styles of leadership.

- Autocratic leaders retain most of the authority for themselves. They make decisions in a confident manner and assume that staff members will comply. An autocratic leader is not usually concerned with the staff members' attitudes toward the decision. Autocratic leaders are considered task -oriented because they place heavy emphasis on getting tasks done. Typical autocratic leaders tell people what to do, assert themselves, and serve as models for group members. Autocratic leaders are not inevitably mean and insensitive, yet many are difficult people.

- A *participative leader* is one who shares decision making with staff members. There are three closely related subtypes of participative leaders.

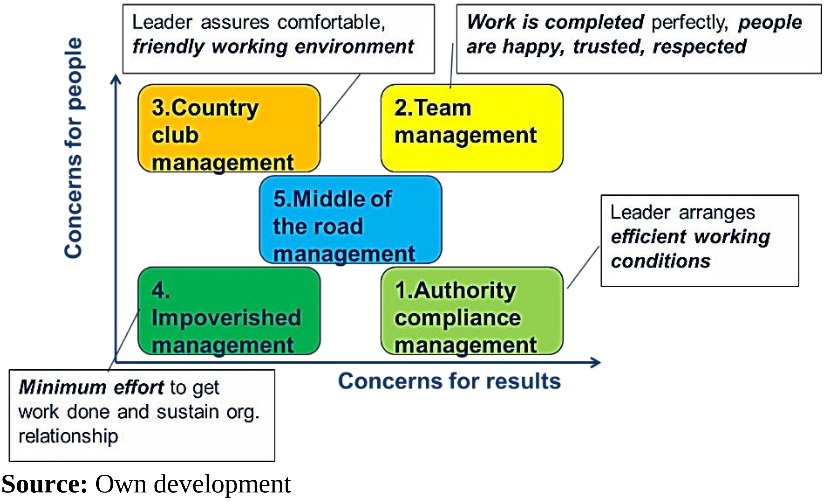
  - "Consultative leaders" confer with subordinates before making a decision. However, they retain the final authority to make decisions.
  - "Consensus leaders" encourage group discussion about an issue and then make a decision that reflects the general opinion (consensus) of all staff members. A decision is not considered final until all parties involved agree with the decision.
  - "Democratic leaders" confer final authority on the group. They function as collectors of opinion and take a vote before making a decision.

- The *free-rein leader* turns over virtually all authority and control to the staff. Leadership is provided indirectly rather than directly. Staff members are presented with a task to perform and are given free rein to figure out the best way to perform it. The leader does not get involved unless requested. Subordinates are allowed all the freedom they want. In short, the free-rein leader delegates completely.

Autocratic and participative leaders see people differently. This difference in perception is the basis for the Theory X and Theory Y explanation of leadership style. Douglas McGregor developed these distinctions to help managers critically examine their assumptions about workers. Theory X and Theory Y form part of the foundation of the human relations approach to management. Although Theory X and Theory Y are fading from mention in management books today, the ideas are still relevant. Many leaders and managers stop to examine the assumptions they make about staff members in order to manage more effectively, so they might make errors in attempting to lead others. For example, a manager might wrongly assume that staff members are all motivated primarily by money.

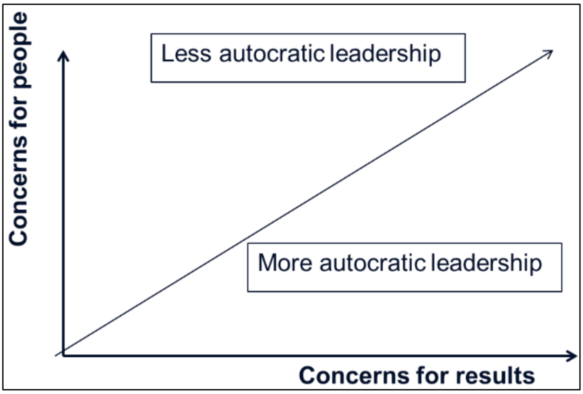
Several approaches to understanding leadership styles focus on two major dimensions of leadership: tasks and relationships. The best known of these approaches is the Leadership Grid**.** It is based on different integrations of the leader's concern for tasks and people's relationships. The Leadership Grid is part of a comprehensive program of leadership training and organizational development. Concern for tasks is rated on the Grid's horizontal axis and includes results, bottom line, performance, profits, and mission. Concern for people's relationship is rated on the vertical axis, and it includes concern for staff members and coworkers. Both concerns are leadership attitudes or ways of thinking about leadership. The developers of the Leadership Grid argue strongly for the value of team management as this approach pays off. It results in improved performance, low absenteeism and turnover, and high morale. Team management relies on trust and respect, which help bring about good results. 27 In the following illustration, 1. and 2. is typical for Anglo-Saxon style of management, 2. -North European style of management, 3. and 5. -South European style of management, 4. -Asian style of management, 2. and 5. -continental European style of management.

Illustration 13: Leadership grid (1)



Source: Own development

Illustration 14: Leadership grid (2)



Source: Own development

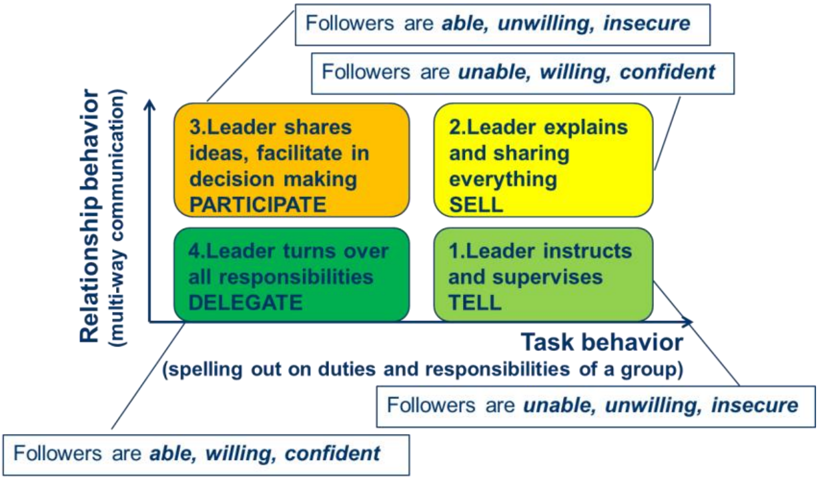
A major perspective on leadership is that effective leaders can adapt their style to the requirements of the situation. The Situational Leadership Model of Paul Hersey and Kenneth H. Blanchard explain how to match leadership style to the readiness of staff members (Hersey *et al*, 1996). The situational leadership training program is widely used in business because it offers leaders practical suggestions for dealing with everyday leadership problems. Leadership in the situational model is classified according to the relative amount of task and relationship behavior the leader engages in. *Task behavior* is the extent to which the leader spells out the duties and responsibilities of an individual or group. *Relationship behavior* is the extent to which the leader engages in multi-way communication. It includes such activities as listening, providing encouragement, and coaching. The situational model places combinations of task and relationship behaviors into four quadrants. Each quadrant calls for a different leadership style. The Situational Leadership Model states there is no one best way to influence staff members. The most effective leadership style depends on the readiness level of staff members. Readiness in situational leadership is defined as the extent to which a staff member has the ability and willingness or confidence to accomplish a specific task. The concept of readiness is therefore not a characteristic, trait, or motive, it relates to a specific task. Readiness has two components, ability and willingness. Ability is the knowledge, experience, and skill an individual or group brings to a particular task or activity. Willingness is the extent to which an individual or group has the confidence, commitment, and motivation to accomplish a specific task. The key point of Situational Leadership Model is that as a staff member's readiness increases, a leader should rely more on relationship behavior and less on task behavior.

When a group member becomes very ready, a minimum of task or relationship behavior is required of the leader. Notice that in the readiness condition, the group member is able and willing or confident. The manager therefore uses a delegating leadership style (quadrant 4). He or she turns over responsibility for decisions and implementation. The situational model represents a consensus of thinking about leadership behavior in relation to group members: Competent people require less specific direction than do less competent people. The situational model also supports common sense and is therefore appealing. It is possible to benefit from the model by attempting to diagnose the readiness of staff members before choosing the right leadership style. In reality, leadership situations are less clear-cut than the four quadrants suggest.

In the illustration shown below the quadrant

1. Is appropriate for unskilled workers, quadrant.
2. Is appropriate for middle and low level managers, quadrant.
3. Is appropriate for innovative workers and managers, quadrant.
4. Is appropriate for high skilled workers.

Illustration 15: Situational leadership model



Source: Own development

The entrepreneurial leadership style

Interest in entrepreneurial leadership continues to grow as start -up companies and other small enterprises become an important source of new employment. Corporate giants continue to shrink in terms of number of people employed, often outsourcing both manufacturing and services to smaller companies. Small businesses account for 47 percent of all sales in the United States and entrepreneurs are the creative forces of the economy, offering new ideas and bringing improvement in the human condition. Entrepreneurs often possess the following personal characteristics and behaviors:

- **A strong achievement need:** Entrepreneurs have stronger a-chievement needs than most managers. Building a business is an excellent vehicle for accomplishment. The high achiever shows three consistent behaviors and attitudes.

He or she

a) Takes personal responsibility to solve problems
b) Attempts to achieve moderate goals at moderate risks
c) Prefers situations that provide frequent feedback on results (starting a new enterprise) (McClelland 1961)

- **High enthusiasm and creativity:** Entrepreneurs are typically enthusiastic, creative and persuasive. As a result, entrepreneurs are often perceived as charismatic by their employees and customers. An entrepreneurial leader is genetically inclined to be an optimist. Some entrepreneurs are so emotional that they are regarded as eccentric.
- **Always in a hurry:** Entrepreneurs are always in a hurry. When engaged in one meeting, their minds typically begin to focus on the next meeting. Entrepreneurs, both men and women, often adopt a simple style of dressing to save time.
- **Visionary perspective:** Successful entrepreneurs carefully observe the world around, in constant search for next great marketable idea. They see opportunities others fail to observe.
- **Uncomfortable with hierarchy and bureaucracy:** Entrepreneurs, by temperament, are not ideally suited to working within the mainstream of a bureaucracy. Many successful entrepreneurs were frustrated by the constraints of a bureaucratic system.
- **Stronger interest in dealing with customers than employees:** Entrepreneurs focus their energies on products, services, and customers. It is difficult to find a classic entrepreneur who is also good at internal management.

1.4.4 Transformational, charismatic and superleadership

Transformational leadership

The major emphasis in the study of leadership is the transformational leader, one who helps organizations and people make positive changes in the way they do things. Transformational leadership is a combination of charisma, inspirational leadership, and intellectual stimulation. It is especially critical in revitalizing existing business. The transformational leader develops new visions for the organization and mobilizes staff members to accept and work toward these visions. This section will describe how transformations take place, the role of charisma, how to become charismatic leaders and the downside of them.

The transformational leader attempts to overhaul the organizational culture or subculture. Transformations take place in one or more of the following ways (Hater, Bass 1988).

- First, the transformational leader raises people's awareness of the importance and value of certain rewards and how to achieve them. The leader might point out the pride workers would experience if the firm became number one in its field. He would also highlight the accompanying financial rewards.
- Second, the transformational leader gets people to look beyond their self-interests for the sake of the group and the firm.
- Third, the transformational leader helps people go beyond a focus on minor satisfactions to a quest for self-fulfillment.

The link between charisma and transformational leadership

Transformational leaders typically have charisma, the ability to lead or influence others based on personal charm, magnetism, inspiration, and emotion. To label a leader as charismatic does not mean that everybody perceives him or her in this manner. Even the most popular and inspiring leaders are perceived negatively by some members of their organization. The following list presents transformational leaders' qualities that relate specifically to charisma (Dubinsky *et al*. 1998).

- **Vision:** Charismatic leaders offer an exciting image of where the organization is headed and how to get there. A vision is more than a forecast, because it describes an ideal version of the future of an organization or its unit.
- **Masterful communication style:** To inspire people, charismatic and transformational leaders use colorful language and exciting metaphors and analogies.

- **Inspire trust:** People believe so strongly in the integrity of charismatic leaders that they will risk their careers to pursue the leader's vision.
- **Help staff members feel capable:** A technique that charismatic leaders often use to boost their followers' self-images is to let them achieve success on relatively easy projects. The staff members are then praised and given more demanding assignments.
- **Energy and action orientation:** Similar to entrepreneurs, most charismatic leaders are energetic and serve as a model for getting things done on time.
- **Intellectual stimulation to others:** Transformational leaders actively encourage staff members to look at old problems or methods in new ways. They emphasize getting people to rethink problems and reexamine old assumptions.
- **Provide inspirational leadership:** Transformational and charismatic leaders emotionally arouse people to the point that they want to achieve higher goals than they thought of previously. In short, the charismatic leader is an inspiration to many others.

Managers can improve their chances of being perceived as charismatic by engaging in favorable interactions with staff members, using a variety of techniques (Dubrin 1997).

- **Use visioning:** Develop a dream about the future of your unit and discuss it with others.
- **Frequent use of metaphors:** Develop metaphors to inspire people around you.
- **Inspire trust and confidence:** Get people to believe in your competence by making your accomplishments known in a polite, tactful way.
- **Make others feel capable:** by giving out assignments on which others can succeed, and lavishly praising their success.
- **Be highly energetic and goal oriented:** so you can impress others with your energy and resourcefulness.
- **Express your emotions frequently:** Freely express warmth, joy, happiness, and enthusiasm.
- **Smile frequently, even if you are not in a happy mood:** A warm smile indicates a confident, caring person, which contributes to perceptions of charisma.

- **Make everybody feel that he or she is quite important:** For example, shake the hand of every person you meet.
- **Multiply the effectiveness of your handshake:** Shake firmly without creating pain and make enough eye contact to notice the color of the other person's eyes.
- **Stand up straight and use nonverbal signs of self-confidence:** Practice having good posture. Minimize fidgeting and speaking in a monotone.

Charismatic business leaders are seen as corporate heroes when they can turn around a failing business or launch a new enterprise. Nevertheless, some charismatic leaders manipulate and take advantage of people, such as by getting them to invest retirement savings in risky company stock. Some charismatic leaders are unethical and lead their organizations toward illegal and immoral ends. People are willing to follow the charismatic leader down a quasi-legal path because of his or her charisma.

Superleadership

An important goal for a leader is to become a superleader, one who leads others to lead themselves. When people are self-directing, they require a minimum of external control. A superleader leads others to lead themselves by acting as a teacher and a coach, not a director. The key aspect of superleadership deals with learning the right thought patterns. The formulators of the superleadership theory, Charles Manz and Henry Sims, contend that the leader must teach staff members how to develop productive thinking. He or she should reward employees when they think constructively. The purpose of constructive, thinking is to enable workers to gain control over their own behavior. The superleader serves as a model of constructive thought patterns. For example, the leader should minimize expressing pessimistic, self-critical thoughts to staff members. Charles Manz recommends several desirable ways of establishing and altering thought patterns in order to practice self-leadership (Manz, Sims 1991).

- **Identify destructive beliefs and assumptions:** After identifying negative thoughts, replace them with more constructive ones. For example, an employee might regard the manager's criticism as an indicator of personal dislike; instead he or she should think that the manager is just trying to help him or her perform at a higher level.
- **Make a habit of talking constructively:** Convert negative thoughts into positive ones.

- **Visualize methods for effective performance:** Imagine yourself moving effortlessly through a challenging assignment, using methods that have worked in the past.

In summary, the superleader helps create conditions whereby staff members require very little leadership. Achieving such a goal is important because organizations have reduced the number of managers. Also, work arrangements such as teams and horizontal structures require self-management.

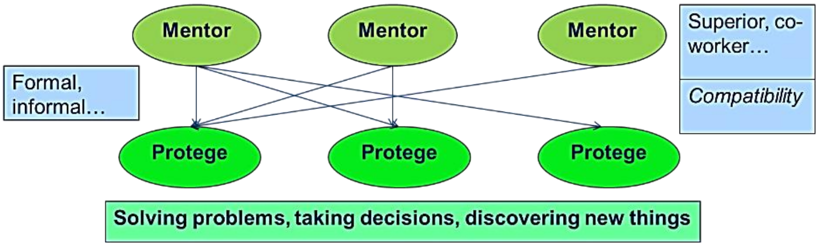
Leadership and mentorship

Another vital part of leadership is directly assisting less experienced workers to improve their job performance and advance their careers. A mentor is a more experienced person who develops a protégé's abilities through tutoring, coaching, guidance, and emotional support. Although never out of style, mentoring is more important than ever as workers face complex and rapidly changing job demands. The mentor, a trusted counselor and guide, is typically a person's manager or team leader. However, a mentor can also be a staff professional or coworker. A mentor is usually somebody who works for the same employer, yet many people are advised and coached by somebody outside their organization. Mentors are typically within the field of expertise of the protégé, but can also come from another specialty. A leader can be a mentor to several people at the same time, and successful individuals often have several mentors during their career. Helping the protégé solve problems is an important part of mentoring. Mentors help their protégés solve problems by themselves and make their own discoveries. A mentor can also give specific assistance in technical problem solving. If the mentor knows more about the new technology than the protégé, he or she can shorten the person's learning time. Many developments in information technology are likely to be taught by a coworker serving as a mentor, because a manager often has less current technology knowledge than a staff member. Mentoring has traditionally been an informal relationship based on compatibility between two personalities. Many mentoring programs assign a mentor to selected new employees. Mentoring has been noted for its importance in helping minorities advance in their careers. An important finding was that minorities with supportive superiors and coworkers (part of mentoring) have faster total compensation growth and progress more rapidly through the organization. It is important for the mentor to be sufficiently highly placed in the organization to make an impact. Hereafter are several actions that can help minority managers advance (Langdon 1998):

- Develop or build on good relationships with superiors and request feedback on performance at least once a year.
- Find and identify an informal mentor who is willing to be an advocate for your upward mobility within the organization, help you learn the informal rules of the workplace, and help you make valuable contacts.
- Identify the informal rules of the company that are helpful in navigating through the organization.
- Build a set of self-management skills, including the ability to overcome potential roadblocks, remain focused on tasks, and assign priorities to tasks.

The link between the behaviors and competencies just mentioned and mentoring is that the leader/mentor can help the protégé achieve them. Being a good mentor therefore enables the leader to develop staff members.

Illustration 16: Mentor-protégé relation



Source: Own development

1.4.5 Motivation and need satisfaction

Motivation and performance

Motivation is an important contributor to productivity and performance. Abilities, skills, and the right equipment are also indispensable. Group norms are another contributor to both motivation and performance. If group norms and organizational culture encourage high motivation and performance, the individual worker will feel compelled to work hard. To do otherwise is to feel isolated from the group. Group norms favoring low motivation and performance will often lower individual output. A manager contributes to performance by motivating group members, improving their ability, increasing role's clarity, and helping to create a positive work culture.

Motivation through need satisfaction

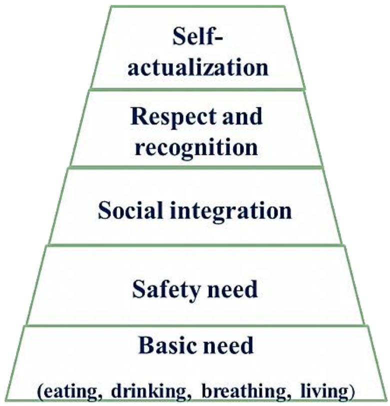
The simplest explanation of motivation is: people are willing to expend effort toward achieving a goal because it satisfies one of their important needs. A need is a deficit within an individual, such as a craving for water (basic need) or success (self-actualization need). Self-interest is thus a driving force. Before working hard to accomplish a task, people probably want to know how they will benefit. People are motivated to fulfill needs that are not currently satisfied. An important implication of the need-satisfaction approach is that there are two key steps in motivating workers. First, manager must know what people want what needs they are trying to satisfy. To gain insight into employee needs, manager should find out about the employee's personal life, education, work history, outside interests, and career goals. Second, each person should be given a chance to satisfy needs on the job. This section examines the needs and motivation from three related perspectives: Maslow's need hierarchy; specific needs related to job motivation; Herzberg's two-factor theory.

- **Maslow's need hierarchy:** Maslow arranges human needs into a pyramid-shaped model with basic physiological needs at the bottom and self-actualization needs at the top. Lower-order needs, call deficiency needs, must be satisfied to ensure a person's existence, security, and requirements for human contact. Higher-order needs, or growth needs, are concerned with personal development and reaching one's full potential. Before higher-level needs are activated, the lower-order needs must be satisfied. The five levels of needs from lowest to highest are described next.
- **"Physiological needs":** refer to the basic bodily requirements such as food, water, shelter, moderate temperatures, rest, and sleep. Most office jobs allow us to satisfy physiological needs. Fire-fighting is an occupation with potential to frustrate some physiological needs.
- **"Safety needs":** include the desire to be safe from both physical and emotional injury. Many operatives who work at dangerous jobs would be motivated by the prospects of obtaining safety. For example, highly stressful job can frustrate the need for emotional safety.
- ***"Social needs":*** are the needs for love, belonging, and affiliation with people. Managers can contribute to the satisfaction of these needs by promoting teamwork and allowing people to discuss work problems with each other. Many employees see their jobs as a major source for satisfying social needs.
- **"Esteem needs":** reflect people's desire to be seen by themselves and others as a person of worth. Occupations with high status are a primary source for the satisfaction of esteem needs. Managers can

help employees satisfy their esteem needs by praising the quality of their work.

- **"Self-actualization needs":** relate to the desire to reach one's full potential. They include needs for self-fulfillment and personal development. Self-actualized people are those who are becoming all they are capable of becoming. Managers can help staff members move toward self-actualization by giving challenging assignments and the chance for advancement and new learning.

Illustration 17: Maslow's hierarchy of needs



Source: (Maslow)

Maslow's need hierarchy is a convenient way of classifying needs and has spurred thousands of managers to take the subject of human motivation more seriously. Its primary value has been that it underlines the importance of satisfying needs in order to motivate employees. Furthermore, Maslow has shown why people are so difficult to satisfy. As one need is satisfied, people want to satisfy other needs or different forms of the same need. Despite its contribution, Maslow's need hierarchy does not apply universally. Not everybody wants to satisfy needs in a stepwise fashion. Some people try to achieve esteem before satisfying their social needs. Others try to satisfy more than one group of needs simultaneously. Maslow's need hierarchy refers to classes of needs. The work setting offers the opportunity to satisfy dozens of psychological needs included somewhere in the need hierarchy.

Needs of achievement, power, affiliation and recognition

According to David McClelland and his associates, much job behavior can be explained by the strength of people's needs for achievement, power, and affiliation (McClelland 1961). The affiliation need is a desire to have close relationships with others and to be a loyal employee or friend. Affiliation is a social need, while achievement and power are self-actualizing needs. A person with a strong need for affiliation finds compatible working relationships more important than high-level accomplishment and the exercise of power. Successful executives, therefore, usually have stronger needs for achievement and power than for affiliation. Workers with strong affiliation needs, however, typically enjoy contributing to a team effort. Befriending others and working cooperatively with them satisfies the need for affiliation. The workplace provides a natural opportunity to satisfy the recognition need, the desire to be acknowledged for one's contributions and efforts and to feel important. A manager can thus motivate many employees by making them feel important. Employee needs for recognition can be satisfied both through informal recognition and by giving formal recognition programs. Teams, as well as individuals, should receive recognition to enhance their motivation. To build a high-performing team, manager should acknowledge the success of all team members.

Herzberg's two factory theory

The study of the need hierarchy led to the two-factor theory of work motivation. The key point is that there are two different sets of job factors. One set of factors can satisfy and motivate people. The other can only prevent dissatisfaction. Psychologist Frederick Herzberg and his associates discovered that some factors of a job give people a chance to satisfy higher-level needs. Such elements are satisfiers or motivators. A satisfier is a job factor that, if present, leads to job satisfaction. Similarly, a motivator is a job factor that, if present, leads to motivation. When a motivator is not present, the effect on motivation is neutral rather than negative. Herzberg's theory originally dealt with job satisfaction, but now it is also considered a theory of job motivation. Herzberg also discovered that some job elements are more relevant to lower-level needs than upper-level needs. Referred to as dissatisfiers, or hygiene factors, these elements are noticed primarily by their absence. A dissatisfier is a job element that, when present, prevents dissatisfaction; it does not, however, create satisfaction. People will not be satisfied with their jobs just because hygiene factors are present. For example, not having a handy place to park a car would create dissatisfaction. But having a place to park would not make people happier about job. Dissatisfiers relate mostly to the context of a job (the job setting or external elements). These include relationships with coworkers, company policy and administration, job security, and money. All these factors deal with external rewards. Money, however, does work as a satisfier for many people. Some people want or need money so much that high pay contributes to their job satisfaction. One reason that money can be a motivator is that high pay is often associated with high status and high esteem. The major aspect of the two-factor theory of job motivation is the point that: the opposite of satisfaction is no satisfaction, not dissatisfaction. Similarly, the opposite of dissatisfaction is no dissatisfaction, not satisfaction. Herzberg's theory has had considerable influence on the practice of management and job design. It is more likely that people in higher-level occupations strive for more responsibility and challenge. But even in a given occupational group not everybody has the same motivational pattern. Another problem with the two-factor theory is that it goes too far in concluding that hygiene factors cannot contribute to satisfaction and motivation. Many people do experience high job satisfaction and motivation because of more job elements such as job security and pleasant working conditions. Also, companies now emphasize benefits as a way of attracting and retaining employees. Joining a company and staying there involve some degree of work motivation, even if not aimed directly at being more productive.

1.4.6 Goals setting, behavior modification

Goals setting

Goal setting, including management by objectives, is a pervasive managerial activity. This section is concerned with the psychology behind goal setting; why and how it leads to improved performance. Goal setting is an important part of most formal motivational programs and managerial methods of motivating employees. The premise underlying goals setting theory is that behavior is regulated by values and goals. A value is a strongly held personal standard or conviction. It is a belief about something important to the individual, such as dignity of work or honesty. Our values create within us a desire to behave consistently with them. With respect to planning, a goal has been defined as an overall condition one is trying to achieve. Its psychological meaning is about the same. A goal is what the person is trying to accomplish, or a conscious intention to act. Edwin A. Locke and Gary P. Latham have conducted many studies about goals and conveyed their findings into a theory of goal setting with the following list of assumptions.

Specific goals lead to higher performance

Instead, generalized goals lead to lower performance.

Performance increases proportionally to goal difficulty

However, there is an important exception, when goals are too difficult, they may lower performance and lead to frustration.

If the goal is to improve performance, the employee must accept them

It is helpful to discuss goals with employees, rather than just imposing the goals on them. Participating in setting goals has no major effect on the level of job performance, except when it improves goal acceptance. Yet participation is valuable because it can lead to higher satisfaction with the goal-setting process.

Goals are more effective when they are used to evaluate performance

When workers know that their performance will be evaluated in terms of how well they attained their goals, the impact of goals increases.

Goals should be linked to feedback and rewards

Workers should receive feedback on their progress toward goals and be rewarded for reaching them. Rewarding people for reaching goals is perhaps the best accepted principle of management. Feedback is also important because it is a motivational principle within itself. The process of receiving positive feedback encourages us to repeat the behavior; receiving negative feedback encourages us to discontinue the behavior. A practical way of building more feedback into goal setting is to set achievable short-term goals. In this way, goal accomplishment will be measured more frequently, giving the goal setter regular feedback. Short-term goals also increase motivation because many people do not have the patience and self-discipline to work long and hard without seeing results.

Group goal setting is as important as individual goal setting

Having employees work as teams with a specific team goal, rather than as individuals with individual goals, increases productivity. Furthermore, the combination of the compatible group and individual goals is more effective than either individual or group goals. Despite the contribution of goals to performance, they are not motivational by themselves. Rather, the discrepancies created by what individuals do and what they aspire to do creates self-dissatisfaction. The dissatisfaction in turn creates a desire to reduce the discrepancy between the real and the ideal. The tension created by not having already achieved a goal spurs the person to reach the goal.

Behavior modification

The most systematic method of motivating people is behavior modification. It is a way of changing behavior by rewarding the right responses and punishing or ignoring the wrong responses. A reward is something of value received as a consequence of having attained a goal.

The *law of effect* is the foundation principle of behavior modification. According to this principle, behavior that leads to positive consequences tends to be repeated. Similarly, behavior that leads to negative consequences tends not to be repeated. Behavior modification is generally associated with extrinsic rewards such as financial bonuses and prizes. However, intrinsic rewards are also used. A worker might receive a more challenging assignment as a reward for performing well on the previous assignment. There are four *behavior modification strategies* used either individually or in combination: positive reinforcement, negative reinforcement, extinction, and punishment.

- "Positive reinforcement" increases the probability that behavior will be repeated by rewarding people for making the right response. Positive reinforcement is the most effective behavior modification strategy. Most people respond better to being rewarded for the right response than to being punished for the wrong response.
- "Negative reinforcement" (or avoidance motivation) is rewarding people by taking away an uncomfortable consequence. It is a method of strengthening a desired response by making the removal of discomfort contingent on the right response. Because the opportunity for removing punishments is limited, negative reinforcement is not a widely used behavior modification strategy. Negative reinforcement or avoidance motivation is often confused with punishment. In reality, negative reinforcement is the opposite of punishment. It is rewarding someone by enabling him or her to avoid punishment.
- "Extinction" is the weakening or decreasing of the frequency of undesirable behavior by removing the reward for such behavior. It is the absence of reinforcement. Extinction often takes the form of ignoring undesirable behavior. Extinction must be used with great care because there are many times when it does not work. An employee may habitually come to work late. If the boss does not reprimand the employee, the employee's tardiness may strengthen. The employee may interpret the boss's attempt at extinction as condoning the behavior.
- "Punishment" is the presentation of an undesirable consequence for a specific behavior. Yelling at an employee for making a mistake is

a direct form of punishment. Another form of punishment is taking away a privilege, such as working on an interesting project, because of some undesirable behavior. In order to be effective, punishment not only tells people what not to do, it teaches them the right behavior. When used appropriately, punishment can be a motivator for those punished and those observing the punishment. The punished workers learned what they did wrong and coworkers learned what type of performance and behavior would not be tolerated. Managers themselves learned more about following organizational policies and procedures. A serious disadvantage of punishment is that it may cause adverse consequences for managers and the organization. Employees who are punished often become defensive, angry, and eager to seek revenge.

Behavior modification may take the form of an overall company program, such as a highly structured behavior modification program, or a rewards and recognition program. Managers use positive reinforcement more frequently, on an informal, daily basis. The following list presents suggestions for making effective use of positive reinforcement, whether as part of a company program or more informally.

"State clearly what behavior will lead to a reward"

The nature of good performance, or the goals, must be agreed to by both manager and staff member.

"Use appropriate rewards"

An appropriate reward is an effective one because it is valued by the person being motivated. The best way to motivate people is to offer them their preferred rewards for good performance. Managers should ask employees what they are interested in attaining.

"Make rewards contingent on good performance"

Contingent reinforcement means that getting the reward depends on giving a certain performance. Unless a reward is linked to the desired behavior or performance it will have little effect on whether the behavior or performance is repeated.

"Administer rewards intermittently"

Positive reinforcement can be administered under different types of schedules. The most effective and sensible type is an intermittent schedule, in which rewards are administered often, but not always, when the appropriate behavior occurs. A reward loses its effect if given every time the employee makes the right response. Thus intermittent rewards sustain desired behavior for a long time by helping to prevent the behavior from fading away when it is not rewarded. Few managers have enough time to dispense rewards every time team members attain performance goals.

“Vary the size of the reward with the size of accomplishment”

Big accomplishments deserve big rewards, and small accomplishments deserve small rewards. Rewards of the wrong magnitude erode their motivational power. People become embarrassed when praise is overly lavish.

“Administer rewards promptly”

The proper timing of rewards may be difficult because the manager is not present at the time of good performance. In this case, a phone call or a note of appreciation within several days is appropriate.

“Change rewards periodically”

Rewards grow stale quickly; they must be changed periodically. A repetitive reward can even become an annoyance.

“Reward the team as well as the individual”

Reward must offer incentives to encourage both teamwork and its members. The evaluation should be done by the project or team leader who is closest to the team’s activities and best able to make a valid evaluation of both the team and its members.

“Make the rewards visible”

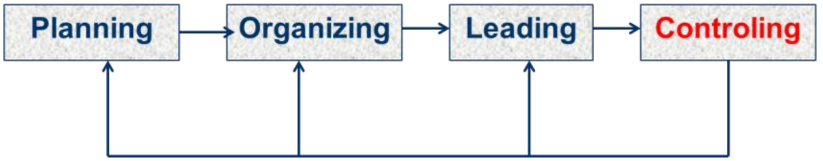
When the reward is noticed, its impact multiplies because other people observe what level of performance is rewarded. They might strive to accomplish the same or even higher performance.

1.5 Controling function

1.5.1 Types of control

Controlling has been referred to as the terminal management function because it takes place after the other functions have been completed. Controlling is most closely associated with planning, because planning establishes goals and the methods for achieving them. Controlling investigates the extent to which planning has been successful. Controlling helps measure how planning, organizing, and leading have been performed. The controlling function also measures the effectiveness of the control system.

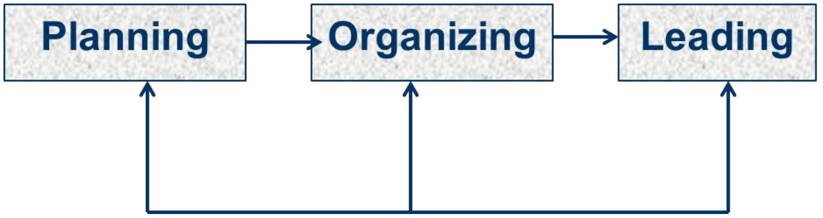
Illustration 18: Controlling in management process



Source: Own development

What happens if we remove the function of control in the management process as in the following illustration?

Illustration 19: Management process without controlling



Source: Own development

And is that possible for an organization without control, will that be better for modern organization? The following illustration discussing positive and negative side of organization management will answer.

Table 13: Management without control

Positive side of management without control	Negative side of management without control
Be more creative and self- controlled	Workers need instructions and control to perform effectively
Front line workers are close to business problem and can solve it in the best interest of the company, without control of superior	Workers cannot assess objectively the works they performed. Someone should have control over their performance's assessment

Source: Own development

It all depends on whether the following theory X or theory Y about human kind is true (or prevails). But today in modern organization we have observed a shift from theory X toward theory Y.

Table 14: Theory X and theory Y

Theory Y's assumptions (positive attitudes toward people, workforce) Tomorrow	Theory X's assumptions (negative attitudes toward people, workforce) Yesterday
Workers are hardworking, they want to contribute something to the company where they are working for	Workers are lazy, they don't want to work, they would like only to get something for nothing from the company

Source: Own development

Controls can be classified according to the time at which the control is applied to the activity: before, during, or after. Another important way of describing controls relates to the source of the control: external versus internal.

A preventive control (or pre-control) takes place prior to the performance of an activity. A pre-control prevents problems that result from deviation from performance standards. Preventive controls are generally the most cost-effective. A manufacturer that specifies quality standards for purchased parts has established a pre-control. By purchasing high-quality parts, the manufacturer prevents many instances of machine failure. Pre-controls are also used in human resource management. Standards for hiring employees are pre-controls. *Concurrent controls* monitor activities while they are being carried out. A typical concurrent control takes place when a supervisor observes performance, spots a deviation from standard, and immediately makes a constructive suggestion. *Feedback controls* (or post-controls) evaluate an activity after it has been performed. Feedback controls measure history by pointing out what went wrong in the past. It may provide guidelines for future corrective action. Financial statements are a form of feedback control. If a financial report indicates that one division of a company has lost money, top-level managers can then confer with division managers to see how to improve the situation. Most firms use a combination of preventive, concurrent, and feedback controls. An important part of a manager’s job is choosing controls that are appropriate to the situation.

External control strategy is based on the belief that employees are motivated primarily by external rewards and need to be controlled by their managers. Autocratic and Theory X management use an external control strategy. An effective external control system involves three steps. First, the objectives and performance standards need to be relatively difficult in order to gain optimum effort of team members and leave little leeway in performance. Second, the objectives and measures must be set in such a way that people cannot manipulate or distort them. For instance, top-level management should make its own investigation of customer satisfaction rather than take the word of field personnel. Third, rewards must be directly and openly tied to performance. An external control strategy has several different effects. On the positive side, employees may channel considerable energy into achieving objectives. Employees do so because they know that good performance leads to a reward. If the control system is tightly structured, the result will be a high degree of control over employee behavior. External control can create problems, however. Employees may work toward achieving performance standards, but they may not develop a commitment to the firm. They may reach standards but not be truly productive. *Internal control strategy* or self-control strategy is based on the belief that employees can be motivated by building their commitment to organizational goals. Participative and Theory Y management use internal control strategy, as do self-managing work teams. Building an effective internal control system requires three steps. First, group members must participate in setting goals. These goals are later used as performance standards (control measures) for control purposes. Second, the performance standards must be used for problem solving rather than for punishment or blame. When deviations from performance are noted, superiors and subordinates should get together to solve the underlying problem. Third, although rewards should be tied to performance, they should not be tied to only one or two measures. An internal control strategy calls for evaluation of an employee's total contribution, not one or two quantitative aspects of performance. A positive result of internal controls is that they usually lead to a higher commitment to attain goals. Another good result is that the system encourages the upward and horizontal flow of valid information about problems. On the negative side, an internal control system may motivate employees to establish easy performance standards for themselves. Another problem is that the supervisor loses control over subordinates and may feel powerless as a result. Finally, an internal control system creates some problems in giving out equitable rewards. Because performance standards may be loose, it is difficult to measure good performance. Internal controls work satisfactorily when a high-caliber, well-motivated work force is available. External controls compensate for the fact that not everybody is capable of controlling their own performance.

1.5.2 Control process

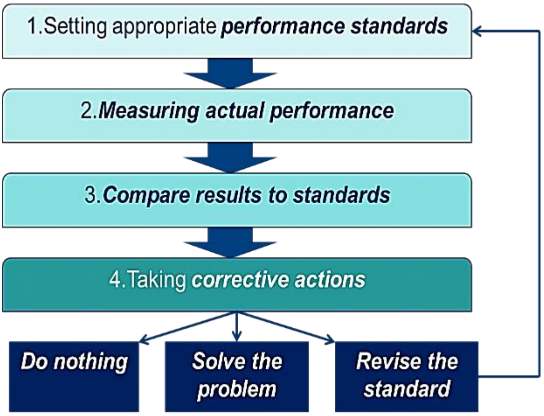
The steps in the control process follow the logic of planning:

1) Setting appropriate performance standards.
2) Measuring actual performance.

3) Comparing actual performance to standards.

4) Taking corrective action if needed.

Illustration 20: Control process



Source: Own development

Setting appropriate performance standard

A control system begins with a set of performance standards that are realistic and acceptable to the people involved. A standard is a unit of measurement used to evaluate results. Standards can be quantitative, such as cost of sales, profits, or time to complete an activity. Standards can also be qualitative, such as a viewer's perception of the visual appeal of an advertisement. Historical information about comparable situations is often used when standards are set for the first time. At times performance standards are dictated by profit-and-loss considerations.

Measuring actual performance

To implement the control system, performance must be measured. Performance appraisals are one of the major ways of measuring performance. Supervisors often make direct observations of performance to implement a control system. A more elaborate performance measure would be a 10-page report on the status of a major project submitted to top-level management. Measurement of performance is much more complex than it would seem on the surface. The list that follows presents three important conditions for effective performance measurement (Mason, Swanson 1979):

Agree on the specific aspects of performance to be measured

Top-level managers in a hotel chain might think that occupancy rate is the right measure of performance. Middle-level managers might disagree by choosing customer service as better measure of performance.

Agree on the accuracy of measurement needed

In some instances, precise measurement of performance is possible. In other instances, precise measurement of performance may not be possible. Quantitative measures of customer satisfaction include the ratings that guests submit on questionnaires and the number of formal complaints. However, many measurements would have to be subjective, such as the observation of the behavior of guests, their spontaneous comments about service. These qualitative measures of might be more relevant than the quantitative measures.

Agree on who will use the measurements

In most firms, managers at higher levels have the authority to review performance measures of people below them in the chain of command. Another issue is how much access the staff has to control reports. Line managers sometimes believe that too many staff members make judgments about their performance.

Comparing actual performance to standards

Once standards have been established and performance measurements taken, the next step is to compare actual performance to standards. Key aspects of comparing performance to standards include measuring the deviation and communicating information about it. *Deviation* in a control system is the size of the discrepancy between performance standards and actual results. It is important to agree beforehand how much deviation from the standard is a basis for corrective action. When using quantitative measures, statistical analysis can determine how much of a deviation is significant. A deviation of plus or minus 3% may not be considered meaningful but rather caused by random events. Deviations of 4% or more, however, would be considered significant. There are times when a deviation as small as 1% from standard can have a big influence on company welfare. If a division fails by 1% to reach $100 million in sales, the firm has $1 million less money than anticipated. At other times, deviations as high as 10% might not be significant. A claims department might be 10% behind schedule in processing insurance claims. However, the manager might not be upset, knowing that all the claims will eventually be processed. When statistical limits are not available, it takes wisdom and experience to diagnose a random deviation. Sometimes factors beyond a person's influence lead to a one-time deviation from performance. If the manager believes this to be the case, the deviation can be ignored. For the control system to work, the results of the comparison between actual performance and standards must be communicated to the right people. These people include the employees themselves and their immediate managers. At times, the results should also be communicated to top-level managers and selected staff specialists.

Taking corrective action

After making an evaluation of the discrepancy between actual performance and a standard, a manager has three courses of action: do nothing, solve the problem, or revise the standard.

Do nothing

The purpose of the control system is to determine if the plans are working. If the evaluation reveals that events are proceeding according to plan, no corrective action is required. Doing nothing, however, does not mean giving up the responsibility. A manager might take the opportunity to compliment employees for having achieved their objectives, but do nothing about their approach to reaching objectives because performance measurements show it to be effective.

Solve the problem

The big payoff from the controlling process concerns the correction of deviations from standard performance. If a manager decides that a deviation is significant (nonrandom), he or she starts problem solving. Typically the manager meets with the team member to discuss the nature of the problem. Other knowledgeable parties might participate. At times, the deviation from a performance standard is so large that a drastic solution is required. Sometimes a manager can correct the deviation from a performance standard without overhauling current operations.

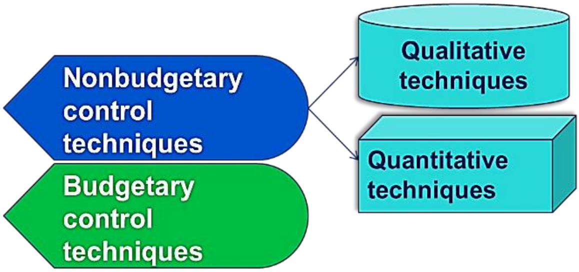
Revise the standard

Deviations from standard are sometimes attributable to errors in planning rather than to performance problems. Corrective action is thus not warranted because the true problem is an unrealistic performance standard. A performance standard is too difficult if no one can meet it. A performance standard may be too easy if all the people can exceed it.

1.5.3 Control techniques

One way of classifying control techniques is to divide them into those based on budgets versus those not based on budgets.

Illustration 21: Control techniques



Source: Own development

Non-budgetary techniques include two types. *Qualitative control techniques* are methods based on human judgments about performance that result in a verbal rather than a numerical evaluation. *Quantitative control techniques* are methods based on numerical measures of performance.

Table 15: Qualitative control techniques

Qualitative technique	Definition	Key features
Audit	Verify accuracy & effectiveness of activities and records	By someone outside the area audited
External audit	Verify financial records by external agency or individual	By outside agency
Internal audit	Verify financial records by internal personnel	Wide in scope, including control system
Management audit	Evaluate overall effectiveness of management	Wide range of practices, policies, procedures
Personal observation	Managerial first-hand observations	Part of managerial job
Performance appraisal	Concerning employees' performance	Evaluate workers
Policy	Guidelines to follow in making decision and taking action	Evaluate managers

Source: Own development

Table 16: Quantitative control techniques

Qualitative technique	Definition	Key features
Gantt chart	Depicts progress of work on a project	Describes progress on project
CPM/PERT	Schedules activities and events using time estimates	How well project is meeting schedule
Break-even analysis	Fixed costs/(price-variable costs)	Organization's performance and basis for corrective action

Economic order quantity	Inventory level that minimizes ordering and carrying cost	Avoid to much or too little inventory
ABC analysis	Assigns value to inventory	Where to control money
Variance analysis	Major control device in manufacturing	Standard costs for materials, labor, overhead and their deviations

Source: Own development

A budget is a plan, expressed in numerical terms, for allocating resources. A budget typically involves cash outflow and inflow. Without budgets, there would be no way of keeping track of how much money is spent in comparison to how much money is available. Here we look at different types of budgets and how budgets are used for control. We also describe three other topics closely tied in with budgeting and control: managing cash flow and cost cutting, the balanced scorecard, and activity-based accounting.

Budgets are described as fixed or flexible. A *fixed budget* allocates expenditures based on a one-time allocation of resources. The organizational unit receives a fixed sum of money that must last for the budget period. A *flexible budget* allows for variation in the use of resources on the basis of activity. Any type of budget can be classified as fixed or flexible. Many different types of budgets help control costs in profit and nonprofit firms. Below are brief descriptions of seven commonly used budgets (Needles at al 1990):

A *master budget* is a budget consolidated from the budgets of various units. Its purpose is to forecast financial statements for the entire company. Each of the separate budgets gives the projected costs and revenues for its own operations.

A *cash budget* is a forecast of cash receipts and payments. The cash budget is an important control measure because it reflects a firm's ability to meet cash obligations. Cash budgeting also serves the important function of showing the amount of cash available to invest in revenue-producing ventures. In the short range, businesses typically invest cash surpluses in stocks, bonds, and money market funds. In the long range, the cash is likely to be invested in real estate or in the acquisition of another company. Another long-range alternative is to use surplus cash to expand the business or consolidate ownership.

A *revenue-and-expense budget* describes the plans for revenues and operating expenses. The sales budget used by business firms is a revenue-and-expense budget. It forecasts sales and estimates expenses for a given period of time. Many firms use a monthly revenue-and-expense budget. The monthly budgets are later converted into quarterly, semiannual, and annual budgets. Most revenue-and-expense budgets divide operating expenses into categories, majorly salaries, benefits, rent, utilities, travel, maintenance, e-quipment.

A *production budget* is a detailed plan that identifies the products or services that must be produced or provided to match the sales forecast and inventory requirements. A production budget can be considered a production schedule.

A *materials purchase/usage budget* is a plan that identifies the raw materials and parts that must be purchased to meet production demands or merchandise that must be purchased to meet the sales demands.

A *human resource budget* is a schedule that identifies the human resource needs for a future period and the labor costs to meet those needs. Of particular interest to management is whether the number of employees will have to be substantially changed to meet sales and production forecasts.

A *capital-expenditure budget* is a plan for spending money on assets used to produce goods or services. Capital expenditures are usually tied to long-range plans. Capital expenditures include money spent for buildings, machinery, equipment, and major inventories.

An important part of the control process is to use budgets and financial ratios as measures of performance. To the extent that managers stay within budget or meet their financial ratios they are performing according to standard. Budgets are a natural part of controlling. Planned expenditures are compared to actual expenditures, and corrective action is taken if the deviation is significant. A more advanced method of using budgets for control is to use financial ratio guidelines for performance. One commonly used ratio is *gross profit margin*, expressed as the difference between sales and the cost of goods sold, divided by sales. The purpose of this ratio is to measure the total money available to cover operating expenses and to make a profit. If performance deviates significantly from a predetermined performance standard, corrective action must be taken. Another widely used financial ratio is the *profit margin*, or return on sales. Profit margin measures profits earned per dollar of sales as well as the efficiency of the operation. A profit margin of 14% would be healthy for most businesses. The last ratio is *return on equity***,** an indicator of how much a firm is earning on its investment. It is the ratio between net income and the owner's equity, or return on equity. Another measure of financial health that works much like a financial ratio is *economic value added (EVA)***.** EVA refers to how much more (or less) the company earns in profits than the minimum amount (cost of capital) its investors expect it to earn. Investors expect higher excess earnings when they invest in a risky venture, such as a company with unproven technology entering a new industry. Investors are willing to settle for lower excess earnings when they invest in a company with proven technology in a stable industry, such as construction supplies. EVA is a frequently used control measure because it focuses on creating shareholder value.

Managing cash flow and cost cutting

Closely tied in with the cash budget is the special attention many managers pay to keeping enough cash on hand to prevent over-reliance on borrowing and being perceived by investors as a firm in financial trouble. *Cash flow* is the amount of net cash generated by a business during a specific period. A company that writes off many income deductions will have a better cash flow. The more depreciation charges a company has, the better its cash flow. A firm that has a large cash flow is seen as a takeover target because the acquiring firm is likely to use the cash to pay off the cost of the acquisition. A company that does not want to be taken over might deliberately lower its cash flow by taking on a lot of debt. A large cash flow for a business owner contributes to peace of mind because the owner can keep operating without borrowing during a business downturn. Cash flow analysis is well accepted because it gives a more accurate picture of financial health than does the sales volume. The ideal way to improve cash flow is to generate more revenue than expenses. However, generating more revenue can be an enormous challenge. Many companies therefore trim costs to improve cash flow. Even when revenues are increasing, some firms reduce costs to remain more competitive. Major cost reduction activities include trimming payroll, selling off an unprofitable portion of the business, forcing discounts from suppliers, and reducing employee travel.

Balanced scorecard

Many researchers and managers have moved away from exclusive reliance on financial ratios and related indices to measure the health of a firm. Budgets reveal important, but incomplete, information. Balanced scorecard is a set of measures that provide a quick but comprehensive view of a business. Managers using the balanced scorecard do not have to rely on short term financial measures as the only indicators of a company's performance. The scorecard encourages managers to use four management processes that separately and in combination help link long-term strategic objectives with short-term actions (Kaplan, Norton 1996):

- Translating the vision helps managers build a consensus around organization's vision and strategy. Lofty statements do not always translate easily into operational terms that provide useful guides to action throughout organization.
- Communicating and linking lets managers communicate their strategy throughout the organization and link it to unit and individual objectives. The major intent is to help them recognize that their efforts are not tied only to short-term financial goals.
- Business planning enables management to integrate their business and financial plans. This involves combining long-term objectives, such as gaining market share, attaining various financial goals. The idea again is to focus on the long term, not short-term targets.
- Feedback and learning with the balanced scorecard the company can monitor or control short-term results from three additional perspectives: Are customers satisfied? How good are our internal business processes? Are we learning and growing as an organization? A balanced scorecard incorporates both financial yardsticks, such as return on equity, and operational yardsticks, such as customer satisfaction and the ability to innovate.

Activity based costing

Activity-based costing (ABC) is an accounting procedure that allocates the costs for producing a product or service to the activities performed and the resources used. Activity-based cost systems give managers a more strategic view of their business because it presents a comprehensive view of all the costs involved in making a product or service and getting it to market. In contrast, a more traditional cost system might focus most on costs such as labor, parts, and administrative overhead. By using activity-based costing managers can assess the productivity of products and business units by assigning costs based on the use of companywide resources. Let's assume a company introduces two new cell phone models. One phone is for use in autos and other general purposes. The other phone is a waterproof model targeted at people who are so attached to technology, or are in such demand, that they want a cell phone that works in the shower. The manufacturing cost is $100 for the conventional model and $130 for the shower model. However, the activity-based cost is $125 for conventional model and $400 for the shower model. The reason for the difference is that many people have to be consulted in order to make the shower model as safe as possible for shower use. The wet-look model also requires extensive consultation with the legal staff to iron out any possible product liability claims.

1.5.4 Coltrol effectiveness

An effective control system improves job performance and productivity by helping workers correct problems. A system that achieves these outcomes has distinct characteristics. The greater the number of the following characteristics a given control system contains, the better the system will be at providing management with useful information and improved performance:

- **The controls must be accepted:** For control systems to increase productivity, employees must cooperate with the system. If employees are more intent on coping with the system than on improving performance, controls will not achieve their ultimate purpose.
- **The control measures must be appropriate and meaningful:** People tend to resist control measures that they believe do not relate to performance in a meaningful way.
- **An effective control measure provides diagnostic information:** If controls are to improve performance, they must help people correct deviations from performance.
- **Effective controls allow for self-feedback and self-control:** A control system that is self-administering saves considerable time. Employees can do much of their own controlling if the system permits them access to their own feedback.
- **Effective control systems provide timely information:** Controls are more likely to lead to positive changes in behavior when the control information is available quickly.
- **Control measures are more effective when employees have control over the results measured:** People rebel when they are held responsible for performance deviations beyond their control.
- **Effective control measures do not contradict each other:** Employees are sometimes asked to achieve two contradictory sets of standards. As a result, they resist the control system. If employees are told to increase both quantity and quality, the result can be confusion and chaos.

- **Effective controls allow for random variations from standard:** If a control allows for random variations that do not differ significantly from the standard, then it is more effective. An ineffective way of using a control system is to quickly take action at the first deviation from acceptable performance. A one-time deviation may not indicate a genuine problem.
- **Effective controls are cost-effective:** Control systems should result in satisfactory returns on investment. In many instances they don't because the costs of control are too high.
- **A cross-functional team's measurement system must empower the team instead of top management:** The ascendance of teams in organizations often requires that control measures for teams be given special consideration. Traditional performance measures may inhibit empowerment because team members do not have full control.

Chapter - II

Management Theories and Practical Issues

2.1 Management Thought Development

Management is such a complex and multidisciplinary subject so that it can be approached from different perspectives or major developments in thought. Although these developments, or schools of thought, are different, they do not compete with each other as statements of truth about management. Instead, they complement and support each other. Well-trained managers select the management ideas that seem to fit the problem at hand. The classical, behavioral, and management-science schools are the major developments in management thought. They are supplemented by the contingency and systems approaches, both of which attempt to integrate these three major developments.

2.1.1 Classical school of management

The classical school of management is the original formal approach to studying management. Its followers search for solid principles and concepts that can be used to manage work and people productively. The core of management knowledge is based on the classical school. One of its key contributions has been to study management from the framework of planning, organizing, leading (or directing previously), and controlling. The major strength of the classical school is that it provides a systematic way of managing people and work that has proved useful over time. Its major limitation is that it sometimes ignores differences among people and situations. Some of the classical principles for designing an organization are not well suited to the technology driven and fast-changing situations.

Table 17: Taylor's management rules

Taylor's management rules	Related management works
1. Create scientific foundations for tasks with norms and methods to follow	Analyze proper time and operations needed to carry our the task
2. Select worker based on skills, suitability for the job, proper training to get jobs done	Use job description to select worker, establish system of assessment criteria and formal training

3. Reward to enhance cooperative spirit, equip working place adequately and effectively	Pay according to productivity, output production, conforming to work's hygiene and safety requirements
4. Separate management from production to enhance professionalism of managers	Job assignment, focusing on managerial works, planning, organizing all activities

Source: Own development

2.1.2 Behavioral school of management

Concerns that the classical school did not pay enough attention to the human element led to the behavioral school of management. Its primary emphasis is on improving management through understanding the psychological makeup of people. The behavioral school has had a profound influence on management, and much of this book is based on behavioral theory. Typical behavioral school topics include leadership, motivation, communication, group decision making, and conflict. Through its insistence that effective leadership depends on understanding the situation, the behavioral school initiated the contingency approach to management.

Much of the behavioral school is rooted in the work of psychologists who applied their research findings to the ordinary workplace. Pioneering management thinkers such as Abraham Maslow, Douglas McGregor, and Frederick Herzberg were psychologists. The primary strength of the behavioral school is that it encourages managers to take into account the human element. Many valuable methods of motivating employees are based on behavioral research. The primary weakness of the behavioral approach is that it sometimes leads to an oversimplified view of managing people. Managers sometimes adopt one simple behavioral theory and ignore other relevant information. For example, several psychological theories of motivation pay too little attention to the importance of money in peoples' thinking.

2.1.3 Scientific school of management

The management-science school provides managers with a scientific basis for solving problems and making decisions. It uses a wide array of mathematical and statistical techniques. To many people, the use of computers in management is synonymous with management science. Many quantitative techniques for quality improvement stem from the management-science school. The primary strength of management science is that it enables managers to solve problems that are so complex they cannot be solved by common sense alone. For example, management-science techniques are used to make forecasts that take into account hundreds of factors simultaneously. A weakness of management science is that the answers it produces are often less precise than they appear. Although management science uses precise methods, much of the data are based on human estimates, which can be unreliable.

2.1.4 Systemic approach

The systems approach to management is more a perspective for viewing problems than a school of thought. It is based on the concept that an organization is a system, or an entity of interrelated parts. If you adjust one part of the system, other parts will be affected automatically. Another aspect of systems theory is to regard the organization as an open system, one that interacts with the environment. The organization transforms inputs into outputs and supplies them to the outside world. If these outputs are perceived as valuable, the organization will survive and prosper. The feedback loop indicates that acceptance of the outputs by society gives the organization new inputs for revitalization and expansion. Managers can benefit from this diagram by recognizing that whatever work they undertake should contribute something of value to external people (such as customers and clients). Two other important concepts for managers from systems theory are entropy and synergy. Entropy is the tendency of a system to run down and die if it does not receive fresh inputs from its environment. The organization must continually receive input from the outside world to make sure it stays in tune with, or ahead of, the environment. Synergy means that the whole is greater than the sum of the parts. When the various parts of an organization work together, they can produce much more than working independently.

2.1.5 Contingency approach

The contingency approach to management emphasizes that there is no one best way to manage people or work. A method that leads to high productivity or morale in one situation may not achieve the same results in another. The contingency approach is derived from the leadership aspects of the behavioral school. Specifically, psychologists developed detailed explanations of which style of leadership would work best in which situation. An example would be for the manager to give more leeway to competent staff members. Common sense also contributes heavily to the contingency approach. Experienced managers know that not all people respond identically to identical situations. The strength of the contingency approach is that it encourages managers to examine individual and situational differences before deciding on a course of action. Its major problem is that it is often used as an excuse for not acquiring formal knowledge about management. However, formal study of management helps manager decide which factors are relevant in particular situations.

2.1.6 Best management practices

Be careful not to dismiss the schools of management thought with historical information that is no longer relevant. Practicing managers can use all five major developments in management thought. An astute manager selects information from the various schools of thought to achieve good results in a given situation. Outstanding managers these days are selecting best practices to manage people and organize work. All of these practices are presented but not confined to the followings.

- **Employment security:** Workers are not in constant threat of being downsized or fired for flimsy reasons.
- **High standards in selecting personnel:** The company attracts a large number of applicants and strives to find highly qualified candidates for all positions.
- **Extensive use of self-managed teams and decentralized decision making:** Workers are organized into teams with the authority to make decisions. Managers throughout the company can make many decisions independently.
- **Comparatively high compensation based on performance:** Paying employees better than the competition leads to success, as does paying employees based on their own performance or that of the department or company.
- **Extensive employee training:** The most successful companies invest in training, because they believe that a well-trained workforce contributes to profits in the long run.
- **Reduction of status differences between higher management and other employees:** Successful firms take steps to reduce status differences among individuals and groups that make some people feel less valued.
- **Information sharing among managers and other workers:** Sharing information about financial performance and company plans helps build trust among employees. Having ready access to useful information also helps many workers perform their job better.
- **Promotion from within:** Loyalty is enhanced when employees believe that they have a shot at being promoted to good jobs within the company.

2.2 Management problems and decisions

2.2.1 Types of decision

Solving difficult problems is a key part of a manager's job. This section explores how managerial workers solve problems and make decisions individually and in groups. A *problem* is a discrepancy between ideal and actual conditions. The ideal situation in the hotel example would be no complaints, while the actual situation was the presence of complaints about slow room service. A *decision* is choosing among alternatives, such as hiring more chambermaids rather than adding more security workers. Problem solving and decision making are important components of planning, and they are also required to carry out the other management functions. For example, while managers are controlling, they must make a series of decisions about how to solve the problem of getting performance back to standard. Jobs allowing for more decision-making authority are generally more satisfying. Another important perspective on decision making is that it lies at the heart of management. A distinguishing characteristic of a manager's job is the authority to make decisions.

Some decisions that managerial workers face are difficult because they occur infrequently. These unique decisions are *non-programed decisions* (or non-routine decisions). In contrast, a *programed decision* is repetitive, or routine, and made according to a specific procedure. When a problem has not taken the same form in the past or is extremely complex or significant, it calls for a non-programed decision. A complex problem is one that contains many elements. Significant problems affect an important aspect of an organization. Virtually all strategic decisions are non-programed. A well-planned and highly structured organization reduces the number of non-programed decisions. It does so by formulating hundreds of policies to help managers know what to do when faced with a given problem. In contrast, many small firms do not offer much guidance about decision making. An exception is that many small-business owners make most of the non-programed decisions themselves. Handling a non-programed problem properly requires original and creative thinking. The skill required for decision making varies inversely with the extent to which it is programed. Highly routine decisions require minimum decision-making skill; highly non-routine decisions require maximum decision-making skill. Managers and non-managers also make many small, uncomplicated decisions involving alternatives that are specified in advance. Procedures specify how to handle these routine, programmed decisions. Under ideal circumstances, top-level management concerns itself almost exclusively with non-routine decisions and lower-level management handles all routine ones. In reality, executives do make many small, programmed decisions in addition to non-programmed ones. Some top executives sign expense-account vouchers and answer routine correspondence, for example. Middle managers and first-level managers generally make both routine and non-routine decisions, with first-level managers making a higher proportion of routine decisions. A well-managed organization encourages all managers to delegate as many non-programmed decisions as possible.

2.2.2 Procedure of problem solving and decision making

Problem solving and decision making can be regarded as an orderly process, similar to the planning process. Yet not every effective solution or decision is the product of an orderly process. The key principle is that managers find better solutions to complex problems and therefore make better major or non-programmed decisions when they follow an orderly process. Drawing a consistent distinction between problem solving and decision making is difficult because they are part of the same process. The basic purpose of making a decision is to solve a problem, but problem must be analyzed prior to making decision. A broader and grander purpose of decision making is to move the organization forward, to seize opportunities, and to avoid problems. Generally, the problem solving and decision making can be divided into following steps.

Identify and diagnose the problem

In other words, the first step in problem solving and decision making is identifying a gap between desired and actual conditions. At times, a problem is imposed on a manager, such as when customer complaints increase. At other times, he or she has to search actively for a worthwhile problem or opportunity. For example, a sales manager actively pursued a problem by conducting an audit to find out why former customers stopped buying from the company. Identifying problems requires considerable skill. Managers may become aware of a problem by noticing one of four typical indicators (Ivancevich *et al*. 1983):

- **Deviation from past performance:** If performance figures are down, a problem almost surely exists. Common problem indicators are declining sales, increased employee turnover, higher scrap rates, and increased customer complaints.
- **Deviations from the plan:** When the results hoped to attain with a plan are not forthcoming, a problem occurs. This type of problem identification requires seeing a deviation from anticipated future

performance. The possibility exists that the established plan was unduly optimistic.

- **Criticism from outsiders:** Managers become aware of problems by hearing complaints not from employees of the firm. These sources of criticism include customers, government regulators, and stockholders.
- **Competitive threats:** The present picture of competition can create problems for an organization.

A thorough diagnosis of the problem is important because the real problem may be different from the one that a first look suggests. The ability to think critically helps a person get at the real problem. To diagnose a problem properly, its true nature must be clarified. An important part of the decision process for making the right diagnosis is to frame the decision. Framing puts managers on the right track by defining what must be decided, and separating out what is important.

Develop creatively alternative solutions

The second step in decision making is to generate alternative solutions. This is the intellectually freewheeling aspect of decision making. All kinds of possibilities should be explored and all people in organization should be creatively engaged in this step.

Evaluate alternative solutions

The next step involves comparing the relative value of the alternatives. The problem solver examines the pros and cons, the feasibility of each one. Some alternatives may appear attractive, but implementing them would be impossible or counterproductive. Comparing relative value often means performing a cost and savings analysis of each alternative. Alternatives that cost much more than they save are infeasible. The possible outcome of an alternative should be part of the analysis. If an unsatisfactory outcome is almost a certainty, the alternative should be rejected. One approach to examining the pros and cons of each alternative is to list them on a worksheet.

Choose one alternative solution

The process of weighing each alternative must stop at some point to choose one of the alternatives that is to make a decision. Several factors influence the choice. A major factor is the goal the decision should achieve. The alternative chosen should be the one that appears to come closest to achieving it. Despite a careful evaluation of alternatives, ambiguity remains in most decisions. The decisions faced by managers are often complex, and the factors involved in them are often unclear. Even when quantitative evidence strongly supports a particular alternative, the decision maker may be uncertain. Human resource decisions are often the most ambiguous because making precise predictions about human behavior is so difficult. Deciding which person to hire from a list of several strong candidates is always a challenge.

Implement the decision

Converting the decision into action is the next major step. Until a decision is implemented, it is not really a decision at all. Many strategic decisions represent wasted effort because nobody is held responsible for implementing them. Much of a manager's job involves helping subordinates implement decisions. A fruitful way of evaluating the merit of a decision is to observe its implementation. A decision is seldom a good one if people resist its implementation or if it is too cumbersome to implement.

Evaluate and control

The final step in the decision-making framework is to investigate how effectively the chosen alternative solved the problem. After gathering feedback, characterize the quality of the decision as optimum, satisficing, or suboptimum. Optimum decisions lead to favorable outcomes. Satisficing decisions provide a minimum standard of satisfaction. Such decisions are adequate, acceptable, or passable. Many decision makers stop their search for alternatives when they find a satisficing one. Accepting the first reasonable alternative may only postpone the need to implement a decision that really solves the problem. Suboptimum decisions lead to negative outcomes. Their consequences are disruptive to the employees and to the firm. When suboptimum results are obtained, the problem-solving and decision-making process must be repeated.

The classical model of problem solving and decision making regards the activities as an orderly and rational process. In reality, problem solving and decision making are seldom logical and systematic. Bounds or limits to rationality are present in decision making. These are the limitations of the human organism, particularly related to the processing and recall of information (Simon 1956). Bounded rationality means that people's limited mental abilities, combined with external influences over which they have little or no control, prevent them from making entirely rational decisions. Satisficing decisions result from bounded rationality. There is usually more than one problem in need of attention, and manager may not have enough time to carefully evaluate each alternative.

2.2.3 Impacts on decision making

Although most people can follow the decision-making steps described above, not everybody can arrive at the same quality of decision. Decision-making ability varies from person to person, and other forces can hamper anyone from finding optimum solution. Hereafter are some factors that influence decision making.

Intuition

Intuition is a personal characteristic that influences decision making. Effective decision makers do not rely on analytical and methodological techniques alone. They also use their hunches and intuition. Intuition is an experience based way of knowing or reasoning in which weighing and balancing evidence are done unconsciously and automatically. Intuition is also a way of arriving at a conclusion without using the step-by-step logical process. The fact that experience contributes to intuition means that decision makers can become more intuitive by solving many difficult problems. Intuition, of course, can be wrong. The distinction between analytical and intuitive thinking is often traced to which half of the brain is dominant. The left half of the brain controls analytical thinking; the right half controls creative and intuitive thinking. Effective problem solvers achieve a balance between analytical and intuitive, or left-brain and right-brain thinking. Rather than operating independently of each other, the analytical and intuitive approaches should be complementary components of decision making.

Personality and cognitive intelligence

The personality and cognitive intelligence of the decision maker influence his or her ability to find effective solutions. The term cognitive intelligence refers to the traditional type of intelligence involved in solving difficult problems. Today psychologists recognize other types of intelligence also, such as being imaginative and adapting well to environment. A particularly relevant personality dimension is a person’s propensity for taking risks. A cautious, conservative person typically opts for a low-risk solution. If a person is extremely cautious, he or she may avoid making major decisions for fear of being wrong. Organizational pressures can also influence a person’s propensity for risk taking. In addition to being related to risk taking, cautiousness and conservatism are related to decisiveness, the extent to which a person makes up his or her mind promptly and prudently. Good decision makers, by definition, are decisive. Perfectionism has a notable impact on decision making. People who seek the perfect solution to a problem are usually indecisive because they are hesitant to accept the fact that a particular alternative is good enough. Self-efficacy, the feeling of being an effective and competent person on a specific task, also has an influence. Rigid people have difficulty identifying problems and gathering alternative solutions. People who are mentally flexible perform well in these areas. Optimism versus pessimism is another relevant personality dimension. Optimists are more likely to find solutions than pessimists are. Pessimists are more likely to give up searching, because they perceive situations as being hopeless. Cognitive (or traditional) intelligence has a profound influence on decision-making effectiveness. In general, intelligent and well-educated people are more likely to identify problems and make sound decisions than are those who have less intelligence and are poorly educated. However, some intelligent, well-educated people have such a fondness for collecting facts and analyzing them that they suffer from analytical paralysis (Gates 1990).

Emotional intelligence

The effectiveness in managing own feelings and reading other people can affect the quality of decision making. Making decision cannot be motivated by retaliation, hostility, and revenge. Emotional intelligence refers to qualities such as understanding one's own feelings, empathy for others, and adjustment of own emotion to a particular situation. Emotional intelligence contains five key factors, all of which can influence the quality of our decisions (Jones 1997):

- **Self-awareness:** The ability to understand your moods, emotions, and needs, as well as their impact on others. Self-awareness also includes using intuition to make decisions that make everybody happy and satisfied.
- **Self-regulation:** The ability to control impulsiveness, calming down anxiety, and reacting with appropriate anger to situations.
- **Motivation:** A passion to work for reasons in addition to money or status. Also, drive, persistence, and optimism when faced with setbacks.
- **Empathy:** The ability to understand and respond to the unspoken feelings of others and the skill to respond to people according to their emotional reactions.
- **Social Skill:** Competency in managing relationships and building networks of support, and having positive relationships with people.

Quality and accessibility of information

Reaching an effective decision usually requires high-quality, valid information. Information systems serve to supply managers with high-quality information. Accessibility may be even more important than quality in determining which information is used or not used. Sometimes it takes so much time and effort to search for quality information than to take it easy to rely on lower-quality information at hand. Closely related to quality and accessibility of information is the tendency to be influenced by the first information received when attempting to solve problems or make decisions. Having been received first, the anchored information becomes the standard against which to judge other information. Anchoring can therefore lead to wasting useful information that is received after the first information.

Political considerations

Under ideal circumstances, organizational decisions are made on the basis of the objective merits of competing alternatives. In reality, many decisions are based on political considerations, such as favoritism, alliances, or the desire of the decision maker to stay in favor with people who wield power. Political factors sometimes influence which data are given serious consideration in evaluating alternatives. The decision maker may select data that support the position of an influential person whom he or she is trying to please. Political factors hampered good decision making. A person with professional integrity arrives at what he or she thinks is the best decision and then makes a diligent attempt to convince management of the objective merits of that solution.

Degree of uncertainty

The more certain a decision maker is of the outcome of a decision, the more calmly and confidently the person will make the decision. Degree of certainty is divided into three categories: certainty, risk, and uncertainty. A condition of certainty exists when the facts are well known and the outcome can be predicted accurately. A retail store manager might predict with certainty that more hours of operation will lead to more sales. It might be uncertain, however, whether the increased sales would cover the increased expenses. A condition of risk exists when a decision must be made based on incomplete, but accurate, factual information. Effective managers often accept a condition of risk. A calculated risk is where the potential return is well worth the cost that will be incurred if the effort fails.

Crisis and conflict

In a crisis, many decision makers panic. They become less rational and more emotional than they would in a calm environment. Decision makers who are adversely affected by crisis perceive it to be a stressful event. As a consequence, they concentrate poorly, use poor judgment, and think impulsively. Under crisis, some managers do not bother dealing with differences of opinion because they are under so much pressure. A smaller number of managers perceive a crisis as an exciting challenge that energizes them toward their best level of problem solving and decision making. Conflict is related to crisis because both can be an emotional experience. When conflict is not overwhelming, and is directed at real issues, not personalities, it can be an asset to decision making. By virtue of opposing sides expressing different points of view, problems can be solved more thoroughly, which leads to better decisions.

Value of the decision maker

Values influence decision making at every step. Ultimately, all decisions are based on values. A manager who places a high value on the personal welfare of employees tries to avoid alternatives that create hardship for workers and implements decision in ways that lessen turmoil. Another value that significantly influences decision making is the pursuit of excellence. Attempting to preserve the status quo is a value held by many managers, as well as others. Clinging to the status quo is perceived as a hidden trap in decision making that can prevent optimum decision making. People tend to cling to the status quo because by not taking action they can prevent making a bad decision, but also fail to bring about major improvements. Preserving the status quo can sometimes lead to procrastination.

Procrastination

Many people are poor decision makers because they delay taking action without a valid reason. Procrastination results in indecisiveness and inaction and is a major cause of self-defeating behavior. Procrastination is a deeply ingrained behavior pattern. However, it can be overcome by starting to be self-disciplined, setting goals, deadlines and conquering the problem in small steps.

2.2.4 Managerial creativity

Creativity is an essential part of problem solving and decision making. Creativity can be defined simply as the process of developing novel ideas that can be put into action. By emphasizing the application of ideas, creativity is closely linked to innovation. To be innovative, a person must produce a new product, service, process, or procedure. Without some creativity a manager cannot solve complex problems or contribute to any types of organizational breakthroughs. Managerial creativity can be seen in the following aspects.

Creative aspects of a manager’s job

A manager’s workday is a collection of miscellaneous activities, from holding scheduled meetings and doing analytical work on a computer to engaging in impromptu conversations. Managers jump from task to task and from person to person. To fashion order from this potential chaos requires creative problem solving. Managers can display creativity in the way they arrange and rearrange schedules, collect and disseminate information and ideas, make assignments, and lead people.

Creative personality

Creative people are more emotionally open and flexible than their less-creative counterparts. Creative people can think outside the box, or get beyond the usual constraints when solving problems. Creative thinkers break the rules. Creative people are also described as those who can make a paradigm shift. A paradigm consists of the perspectives and ways of doing things that are typical of a given context. Closely related to making paradigm shifts is the ability to think laterally. Lateral thinking spreads out to find many different solutions to a problem. Vertical thinking, in contrast, is an analytical, logical process that results in few answers. A problem requiring lateral thinking would be to specify a variety of ways in which a small-business owner could increase income. A vertical thinking problem would be to calculate how much more money the small-business owner needs each month to earn a 10% profit. Lateral thinking is thus divergent, while vertical thinking is convergent. Creative people are able to think divergently. They can expand the number of alternatives to a problem, thus moving away from a single solution. Creative thinker also knows when it is time to think convergently. For example, the divergent thinker might generate many ways to reduce costs. Yet at some point he or she will have to converge toward choosing the best of several cost-cutting procedures (Sloane 1992).

Necessary conditions for creativity

Creativity takes place when three components join together: expertise, creative-thinking skills, and motivation (Amabile 1998). Expertise refers to the necessary knowledge to put facts together. Creative-thinking refers to how flexibly and imaginatively individuals approach problems. Persevering, or sticking with a problem to a conclusion, is essential for finding creative solutions. The right type of motivation is the third essential ingredient for creative thought. A fascination with, or passion for, the task is more important than searching for external rewards. People will be the most creative when they are motivated primarily by the satisfaction and challenge of the work itself. In addition to the internal conditions that foster creativity, two factors outside the person have a significant effect. An environmental need must stimulate the setting of a goal. Another condition that fosters creativity is enough conflict and tension to put people on edge.

Creative organization

Another perspective on the conditions necessary for creativity is to recognize that certain managerial and organizational practices foster creativity. The most important characteristic of the creative organization is an atmosphere that encourages creative expression. A manager who encourages imaginative and original thinking, and does not punish people for making honest mistakes, is likely to receive creative ideas from group members. Among the specifics of being supportive are showing concern for employees' feelings and needs, and encouraging them to voice their concerns. Six following categories of activities managers can do to establish a creative atmosphere (Kuczmarski 1996):

- **Challenge:** Giving employees the right type and amount of challenge is part of providing a creative atmosphere. Employees should be neither bored with the simplicity of the task, nor overwhelmed by its difficulty.
- **Freedom: To** be creative, employees should have the freedom to choose how to accomplish a goal, but not which goal to accomplish.
- **Resources:** Managers need to allot time and money carefully to enhance creativity. Tight deadlines can get the creative juices flowing, but people still need enough time to let creative ideas swirl around in their heads for a while. Employees also need large enough budgets to purchase the equipment and information necessary to get the job done.
- **Supervisory encouragement:** For people to sustain creative effort, they need to feel that their work matters to the employer.
- **Organizational support:** The organization as well as the manager must support creativity. Support can take such forms as giving recognition and financial rewards for successful new ideas.
- **Encouraging risk taking:** Employees are sometimes hesitant to make creative suggestions for fear of being zapped if their new idea

fails when implemented. In contrast, if risk taking is encouraged by informing employees that it is okay to fail more people will be willing to take chances.

Organizational programs for improving creativity

Another aspect of the creative organization is formal programs or mechanisms for creativity improvement. Four such mechanisms are creativity training, brainstorming, idea quotas, and suggestion programs.

Creativity training

A lot of small and medium enterprises in USA provide some sort of creativity training. A typical training is a seminar on creative thinking techniques. A representative training exercise used in many firms is the pet-peeve technique. The group thinks up as many complaints as possible about every facet of the department and is encouraged to take the views of external and internal customers, competitors, suppliers. In addition, participants can solicit feedback on themselves from coworkers or from the people they serve. Diplomacy is required for giving constructive feedback, and the technique works best in an atmosphere of trust. As with many creativity-training exercises, the pet-peeve technique loosens people up and provides information for improving operations. Participants can laugh at their own weaknesses in a friendly setting as laughter is important factor to facilitate creativity. The pet-peeve technique can also be used outside the training program, as a method for improving productivity, quality, and service.

Brainstorming

This technique is a method of problem solving carried out by a group. Group members spontaneously generate numerous solutions to a problem, without being discouraged or controlled. Brainstorming produces many ideas; it is not a technique for working out details. By brainstorming, people improve their ability to think creatively. To achieve the potential advantages of brainstorming, the session must be conducted properly. Some types of business problems are well suited to brainstorming. These include coming up with a name for a new sports car, developing an idea for a corporate logo, identifying ways to attract new customers, and making concrete suggestions for cost cutting. Brainstorming can also be conducted through e-mail, generally referred to as electronic brainstorming. In brainstorming by e-mail, group members simultaneously enter their suggestions into a computer. The ideas are distributed to the screens of other group members. In either approach, although group members do not talk to each other, they are still able to build on each other's ideas and combine ideas (Siau 1997).

Idea quotas

An increasingly popular technique for encouraging creative input from employees is to set quotas for employee suggestions.

Suggestion programs

To encourage creative thinking, companies throughout the world use suggestion programs. They are a formal method for collecting and analyzing employee suggestions about processes, policies, products, and services. Unlike idea quotas, suggestion programs rely on voluntary submissions. Useful suggestions save money, earn money, or increase safety or quality. Committees evaluate submissions and make awards in suggestion programs. These programs foster creativity by offering financial rewards and by conferring prestige on employees whose ideas are implemented. In addition, suggestions programs help get employees involved in the success of their organization.

2.2.5 Group problem solving and decision making

Most major, non-routine decisions in organizations are made by groups. Group decisions result when several people contribute to a final decision. Since so much emphasis has been placed on teams in organizations and participative decision making, an increasing number of decisions are made by groups rather than individuals. Group decision making is often used in complex and important situations such as:

- Developing a new product or a service
- Deciding which employees should be placed on a downsizing list
- Deciding whether to operate a company cafeteria with company personnel or to outsource to a specialized service company

Because group decision making takes more time and people than individual decision making, it should not be used indiscriminately. Group decision making should be reserved for non-routine decisions of reasonable importance. Aside from being used to enhance the quality of decisions, group decision making is often used to gain acceptance for a decision. If people contribute to a decision, they are more likely to be committed to its implementation.

Advantages and disadvantages of group decision making

Group decision making offers several advantages over the same activity carried out individually. First, the quality of the decision might be higher because of the combined wisdom of group members. A second benefit is a byproduct of the first. Group members evaluate each other's thinking, so major errors are likely to be avoided. The marketing vice-president of a company that sells small appliances such as microwave ovens, toasters, and coffee pots decided the company should sell direct through E-commerce. Before implementing the decision, the executive brought the matter up for group discussion. A sales manager in the group pointed out that direct selling would enrage their dealers, thus doing damage to the vast majority of their sales. The marketing vice-president then decided she would back off on direct marketing until a new product was developed that would not be sold through dealers. Third, group decision making is helpful in gaining acceptance and commitment. People who participate in making a decision will often be more committed to the implementation than if they were not consulted. Fourth, groups can help people overcome blocks in their thinking, leading to more creative solutions to problems.

Group decision making also has some notable disadvantages. The group approach consumes considerable time and may result in compromises that do not really solve the problem. An intelligent individual might have the best solution to the problem, and time could be saved by relying on his or her own judgment. Seriously flawed group decisions have occurred so frequently in government and business that they have been extensively analyzed and researched. Groupthink can often be avoided if the team leader encourages group members to express doubts and criticisms of proposed solutions.

General method of group problem solving

When workers at any level gather to solve a problem, they typically hold a discussion rather than rely on a formal decision-making technique. These general meetings are likely to produce the best results when they follow the decision-making steps. In addition, a problem-solving group should also follow suggestions for conducting an effective meeting. Five of these suggestions particularly related to problem solving are:

Have a specific agenda and adhere to it

Meetings are more productive when an agenda is planned and followed carefully. People should see the agenda in advance so they can prepare for the session.

Rely on qualified members

Groups often arrive at poor solutions because the contributors do not have the necessary knowledge and interest. An uninformed person is typically a poor decision maker. Also, a person who attends a meeting reluctantly will sometimes agree to any decision to be made.

Have the leader share decision-making authority

A key attribute of an effective problem-solving meeting is a leader who shares authority. Unless authority is shared, the members are likely to believe that the hidden agenda of the meeting is to seek approval for the meeting leader's decision.

Provide summaries for each major point

Decision-making quality improves when members clearly understand the arguments that have been advanced for and against each alternative. Summarizing major points helps keep the meeting focused on major issues, because minor issues are excluded from the summary.

Build consensus so the decision is more likely to be implemented

When group decision making is really team decision making, obtaining general agreement is particularly important. The emphasis on a team rather than merely on a group means that there is particular emphasis on members working together smoothly and depending on each other. Consensus is most likely to happen when key points are discussed thoroughly and each member's input is asked for in reference to the point. It also helps to take at least a small part of each member's idea and incorporate it into the final decision.

2.3 Management ethics

2.3.1 Business ethics

Understanding and practicing good business ethics is an important part of a manager's job. Ethics are important because customers, suppliers as well as other partners prefer to deal with ethical companies. Ethics is the study of moral obligation, or separating right from wrong. Although many unethical acts are illegal, others are legal. An example of an illegal unethical act is giving a government official a kickback for placing a contract with a specific firm. An example of a legal, yet unethical, practice is hiring an employee away from a competitor. A useful perspective in understanding business ethics emphasizes moral intensity, or the magnitude of an unethical act (Jones 1991). When an unethical act is not of large consequence, a person might behave unethically without much thought. However, if the act is of large consequence, the person might refrain from unethical or illegal behavior. Business ethics will be approached from several perspectives: philosophical principles, values, contributing factors to ethical problems, common ethical problems, and a guide to ethical decision making.

Philosophical principles of business ethics

A standard way of understanding ethical decision making is to know the philosophical basis for making these decisions. When attempting to decide what is right and wrong, managerial workers can focus on:

1) Consequence
2) Duties, obligations, and principles
3) Integrity (Hosmer 1995)

Focus on consequences

When attempting to decide what is right or wrong, people can sometimes focus on the consequences of their decision or action. According to this criterion, if no one gets hurt, the decision is ethical. Focusing on consequences is often referred to as utilitarianism. The decision maker is concerned with the utility of the decision. What really counts is the net balance of good consequences over bad.

Focus on duties, obligations and principles

Another approach to making an ethical decision is to examine one's duties in making the decision. The theories underlying this approach are referred to as deontological, from the Greek word Deon. The deontological approach is based on universal principles such as honesty, fairness, justice, and respect for persons and property. Rights, such as the rights for privacy and safety, are also important. From a deontological perspective, the principles are more important than the consequences. If a given decision violates one of these universal principles, it is automatically unethical even if nobody gets hurt.

Focus on integrity

The third criterion for determining the ethics of behavior focuses on the character of the person involved in the decision or action. If the person has good character, and genuine motivation and intentions, he or she is behaving ethically. The ingredients making up character will often include the two other ethical criteria. One might judge a person to have good character if she or he follows the right principles and respects the rights of others. The decision maker's environment, or community, helps define what integrity means. Business-related professions having codes of ethics include accountants, purchasing managers, and certified financial planners. To the extent that the person abides by the tenets of the stated code, he or she is behaving ethically.

When faced with a complex ethical decision, a manager would be best advised to incorporate all three philosophical approaches. The manager might think through the consequences of a decision, along with an analysis of duties, obligations, principles, and intentions.

Values and ethics

Values are closely related to ethics. Values can be considered as clear statements of what is critically important. Ethics become the vehicle for converting values into actions, or doing the right thing. For example, a clean environment is a value, whereas not littering is practicing ethics (Karp 1996). Many firms contend that they "put people before profits" (a value). If this were true, a manager would avoid actions such as delaying payments to a vendor just to hold on to money longer, or firing a group member for having negotiated a deal that lost money. A person's values also influence which kind of behaviors he or she believes are ethical. An executive who strongly values profits might not find it unethical to raise prices more than are needed to cover additional costs. Values are also important because the right values can lead to a competitive advantage. Winning executives see values as a competitive tool that enables their organizations to respond quickly and appropriately. These executives invest time in nurturing values they think will help the organization, including honesty, integrity, teamwork, risk taking and customer satisfaction Ethically centered management emphasizes that the high quality of an end product takes precedence over its scheduled completion. At the same time, it sets high quality standards for dealing with employees and managing production.

Contributing factors to ethical problems

Individuals, organizations, and society itself must share some of the blame for the prevalence of unethical behavior in the workplace. Major contributors to unethical behavior are an individual's greed and gluttony, or the desire to maximize self-gain at the expense of others. Another major contributor to unethical behavior is an organizational atmosphere that condones such behavior. Even employees with high ethical standards may stray in a climate that rewards unethical behavior. A firm's official code of ethics may not coincide with its actual climate. It is the firm's top executives who set the company's moral tone. A third case of unethical behavior is moral laxity, a slippage in moral behavior because other issues seem more important at the time.

Among the most common ethical violations were

a) Cutting corners on quality

b) Covering up incidents that would make them look bad

c) Deceiving customers

d) Lying to a supervisor or group member

e) Taking credit for a coworker's idea (Greengard 1997)

A contributing factor to these five types of unethical behavior is that the person has an incentive for being unethical. A new explanation for the cause of unethical behavior emphasizes the strength of relationships among people as a major factor.

Ethical temptations and violations

Certain ethical mistakes, including illegal actions, recur in the workplace. Familiarizing with these behaviors can be helpful in managing the ethical behavior of others as well as monitoring own behavior. A list of commonly found ethical temptations and violations, including criminal acts, follows (Greengard 1993):

- **Stealing from employers and customers:** Retail employees often steal goods from employers, bank and financial service employees often steal money, stockbrokers and attorneys often siphon money from customer accounts.
- **Illegally copying software:** A rampant problem in the workplace is making unauthorized copies of software for either company or personal use. Similarly, many employees make illegal copies of videos, books, and magazine articles instead of purchasing these products.
- **Treating people unfairly:** Being fair to people means equity, reciprocity, and impartiality. Fairness revolves around the issue of giving people equal rewards for accomplishing the same amount of work. Make decisions about people should be based on their qualifications and performance, not on the basis of demographic factors like sex, race, or age. A fair working environment is where performance is the only factor that counts (equity). Employer-employee expectations must be understood and met (reciprocity). Prejudice and bias must be eliminated (impartiality).
- **Sexual harassment:** Sexual harassment violates the law and is also an ethical issue because it is morally wrong and unfair. Furthermore, sexual harassment led to problems of psychological well-being such as dissatisfaction with work. After being harassed, women also tended to be absent and tardy more frequently. Sexual harassment is such a widespread problem that most employers take steps to prevent the problem.

- **Conflict of interest:** Part of being ethical is making business judgments only on the basis of merits. A conflict of interest occurs when judgment or objectivity is compromised.
- **Divulging confidential information:** An ethical person can be trusted by others not to divulge confidential information unless the welfare of others is at stake. The challenge of dealing with confidential information arises in many areas of business.
- **Misuse of corporate resources:** A corporate resource is anything the company owns, including its name and reputation. Using corporate resources can fall into the gray area, such as whether to borrow a laptop computer to prepare income taxes for a fee.
- **Greed, gluttony, and avarice:** An ethical temptation, particularly among top-level executives, is to misuse corporate resources in an extravagant, greedy manner. The temptation is greater for top executives because they have more control over resources.

A guide to ethical decision making

A practical way of improving ethical decision making is to run contemplated decisions through an ethics test when any doubt exists. Decision makers are taught to ask themselves (Bowditch, Buono 1997):

- **Is it right?** This question is based on the deontological theory of ethics that there are certain universally accepted guiding principles of rightness and wrongness.
- **Is it fair?** This question is based on the deontological theory of justice, implying that certain actions are inherently just or unjust. For example, it is unjust to fire a high-performing employee to make room for a less competent person who is a personal friend.
- **Who gets hurt?** This question is based on the utilitarian notion of attempting to do the greatest good for the greatest number of people.
- **Would it be comfortable if the details of managerial decision were publicly reported?** This question is based on the universal principle of disclosure.
- **Would you tell your child to do it?** This question is based on the deontological principle of reversibility, referring to reversing who carries out the decision.

- **How does it smell?** This question is based on intuition and common sense.

A decision that was obviously ethical, such as donating some managerial time for charitable organizations, would not need to be run through the six-question test. Neither would a blatantly illegal act, such as not paying employees for work performed. But the test is useful for decisions that are neither obviously ethical nor obviously unethical. Among such gray areas would be charging clients based on their ability to pay and developing a clone of a successful competitive product. Another type of decision that often requires an ethical test is choosing between two rights or two wrongs rather than right versus wrong.

2.3.2 Corporate social responsibility

Many people believe that firms have an obligation to be concerned about outside groups affected by an organization. Social responsibility is the idea that firms have obligations to society beyond their economic obligations to owners or stockholders and also beyond those prescribed by law or contract. Both ethics and social responsibility relate to the goodness or morality of organizations. Business ethics is a narrower concept that applies to the morality of an individual's decisions and behaviors. Social responsibility is a broader concept that relates to an organization's impact on society, beyond doing what is ethical. To behave in a socially responsible way, managers must be aware of how their actions influence the environment. An important perspective is that many socially responsible actions are the byproducts of sensible business decisions. For instance, it is both socially responsible and profitable for a company to improve the language and math skills of entry-level workers. Literate and numerate entry-level workers for some jobs may be in short supply, and employees who cannot follow written instructions and do basic math may be unproductive. An expanded view of social responsibility regards organizations as having a corporate social consciousness. The term refers to a set of consciously held shared values that motivate and guide individuals to act in a responsible way. As part of being responsible, the interests of the corporation are balanced against its accountability for the effect of its actions upon society, the environment, and other interested parties (Lavine, Moore 1996). A company with a strong corporate social consciousness would be profitable, pay high wages, attract high-quality job candidates, and be admired by the general public and the government. This section will examine three aspects of social responsibility: the two viewpoints of social responsibility; corporate social performance; and a sampling of specific social responsibility initiatives.

Stockholder versus stakeholder viewpoints

The stockholder viewpoint of social responsibility is the traditional perspective. It holds that business firms are responsible only to their owners and stockholders. The job of managers is therefore to satisfy the financial interests of the stockholders. By so doing, the interests of society will be served in the long run. Socially irresponsible acts ultimately result in poor sales. According to the stockholder viewpoint, corporate social responsibility is therefore a by-product of profit seeking. The stakeholder viewpoint of social responsibility contends that firms must hold themselves responsible for the quality of life of the many groups affected by the firm's actions. These interested parties, or stakeholders, include those groups composing the firm's general environment. Two categories of stakeholders exist. Internal stakeholders include owners, employees, and stockholders; external stakeholders include customers, labor unions, consumer groups, and financial institutions. Many organizations regard their various stakeholders as partners in achieving success, rather than as adversaries. The organizations and the stakeholders work together for their mutual success. An example of a company partnership with a labor union is the establishment of joint committees on safety and other issues of concern to employees (Harrison, John 1996). Part of understanding the stakeholder viewpoint is to recognize that not all stakeholders are the same. Instead, they can be differentiated along three dimensions. Some stakeholders are more powerful than others. Some stakeholders are more legitimate than others. Some stakeholders are more urgent than others because they require immediate attention.

Corporate social performance

Corporate social performance is the extent to which a firm responds to the demands of its stakeholders for behaving in a socially responsible manner. After stakeholders have been satisfied with the reporting of financial information, they may turn their attention to the behavior of the corporation as a good citizen in the community. One way of measuring social performance is to analyze the company's annual report in search of information disclosure on social contribution for example in areas:

- Pollution prevention measures
- Contributions to crime prevention
- Contribution to the homeless
- Contributions to AIDS treatment and substance abuse programs
- Contributions to the arts
- Contributions to education

Another approach to measuring corporate social performance is to observe how a company responds to social issues by examining programs in more detail.

Social responsibility initiatives

Creating opportunities for a diverse work force is an important social responsibility initiative. Here we describe positive corporate responses to other important social issues. A firm that takes initiatives in these areas can be considered socially responsible. The six social responsibility initiatives described here are: environmental management, work/life programs, social leaves of absence, community redevelopment projects, acceptance of whistle blowers, and compassionate downsizing.

Environmental management

Many companies take the initiative to preserve natural environment in a way that pleases environmental groups. As a result, the company works in partnership with a group intent on such purposes as preserving forests or a species of fish or animal. Another key aspect of environmental management is to prevent pollution rather than control wastes after they have surfaced.

Work/life programs

A major social responsibility initiative is for organizations to establish programs that facilitate employees balancing the demands of work and personal life. Typically these programs are termed work/life or work/family programs. The intent is to help employees lead a more balanced life, and be more satisfied and productive on the job. As results, absenteeism falls, turnover decreases, and productivity and profits rise.

Social leaves of absence

Some companies offer employees paid leaves of absence, of anywhere from several weeks to six months, to help them prevent burnout. A social leave of absence, however, gives select employees time away from the job to perform a significant public service. As with other firms offering social leaves, the community work must be integrated into the department's work plans. The social good performed by the person on leave often takes the form of lending business expertise to a nonprofit agency. At other times the social leave is to perform work indirectly related to one's professional expertise.

Community redevelopment projects

A large-scale social responsibility initiative is for business firms to invest resources in helping rebuild distressed communities. Investment could mean constructing offices or factories in an impoverished section of town, or offering job training for residents from these areas.

Acceptance of whistleblowers

A whistle blower is an employee who discloses organizational wrongdoing to parties who can take action. Whistle blowers are often ostracized and humiliated by the companies they hope to improve, by such means as no further promotions or poor performance evaluations. More than half the time, the pleas of whistle blowers are ignored. Only an organization with a strong social conscience would embrace employees who inform the public about its misdeeds. Yet some companies are becoming more tolerant of employees who help keep the firm socially responsible by exposing actions that could harm society.

2.3.3 Ethical and socially responsible business

Benefits form ethics and social responsibility

Highly ethical behavior and socially responsible acts are not always free. Investing in work/life programs, granting social leaves of absence, and telling customers the absolute truth about potential product problems may not have an immediate return on investment. Nevertheless, recent evidence suggests that high ethics and social responsibility are related to good financial performance. Another perspective on the relationship between profits and social responsibility is that it works two ways. More profitable firms can better afford to invest in social responsibility initiatives, and these initiatives in turn lead to more profits. Levels of corporate social performance were influenced by prior financial success and financial success creates enough money left over to invest in corporate social performance. Good corporate social performance contributes to improved financial performance as measured by return on assets and return on sales. The relationship between social and financial performance may be a virtuous circle, meaning that corporate social performance and corporate financial performance feed and reinforce each other (Waddock, Graves 1997). Being ethical also helps avoid the costs of paying huge fines for being unethical. A big payoff from socially responsible acts is that they often attract and retain socially responsible employees and customers. To accommodate the interests of socially responsible business people, a trade group has been formed called Businesses for Social Responsibility (BSR). Its charter is to make social, environmental, and worker-friendly practices a key part of business and government policy making. A spokesperson for BSR points to a compelling benefit derived from social responsibility: This way of doing business is inevitable. The growth in green marketing and socially screened investing shows that consumers and investors are becoming increasingly sensitive to both the quality of products they purchase and the business practices of the company they buy from (Reynolds 1993).

Ethical and socially responsible workplace

Establishing an ethical and socially responsible workplace is not simply a matter of luck and common sense. Top managers, assisted by other managers and professionals, can develop strategies and programs to enhance ethical and socially responsible attitudes. Here is a description of several of these initiatives (Davidson 1998).

Formal mechanism for monitoring ethics

Large organizations frequently set up ethics committees to help ensure ethical and socially responsible behavior. Committee members include a top-management representative plus other managers throughout the organization. An ethics and social responsibility specialist from the human resources department might also join the group. The committee helps establish policies about ethics and social responsibility, and might conduct an ethical audit of the firm's activities. In addition, committee members might review complaints about ethical violations. A hard-hitting formal mechanism is the appointment of an ethics officer, an action taken by many large firms. Sometimes the ethics officer is the general counsel, and at other times he or she is a full-time specialist. The ethics officer is supposed to provide leadership and guidance about fair business conduct and socially responsible acts.

Written organizational codes of conduct

Many organizations use written ethical codes of conduct to serve as guidelines for ethical and socially responsible behavior. Such guidelines have increased in importance because workers placed in self-managing teams have less supervision than previously. Some aspects of these codes are general, such as requiring people to conduct themselves with integrity and candor. Other aspects of the codes might be specific, such as indicating the maximum gift that can be accepted from a vendor. In many organizations, known code violators are disciplined.

Widespread communication about ethics and social responsibility

Extensive communication about the topic reinforces ethical and socially responsible behavior. Top management can speak widely about the competitive advantage of being ethical and socially responsible. Another effective method is to discuss ethical and social responsibility issues in small groups. In this way the issues stay fresh in the minds of workers.

Leadership by example

A high-powered approach to enhancing ethics and social responsibility is for members of top management to behave in such a manner themselves. If people throughout the firm believe that behaving ethically is “in” and behaving unethically is “out,” ethical behavior will prevail.

Encourage confrontation about ethical deviations

Unethical behavior may be minimized if every employee confronts anyone seen behaving unethically. The same approach encourages workers to ask about the ethical implications of decisions made by others in the firm.

Training programs in ethics and social responsibility

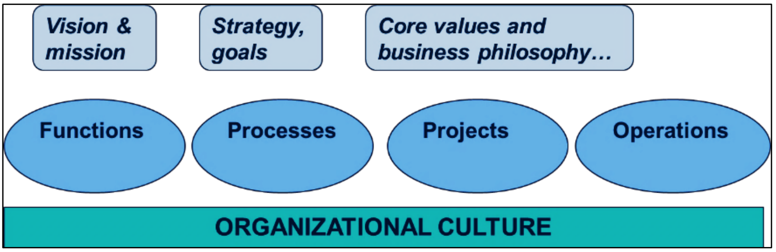
Many companies now train managerial workers about ethics. Forms of training include messages about ethics from executives, classes on ethics at colleges, and exercises in ethics. These training programs reinforce the idea that ethically and socially responsible behavior is both morally right and good for business.

2.4 Organization culture and behavior

2.4.1 Organization culture

Organization structure has sometimes been referred to as the “hard side” of understanding how a firm operates. However, each firm has a “soft side” as well; an understanding of this aspect of an organization contributes to an understanding of how the organization operates. Organizational culture is the system of shared core values and beliefs that actively influence the behavior of organization members and that create common infrastructure for all activities inside organization, helping boost their performance. The term shared is important because it implies that many people are guided by the same core values and that they interpret them in the same way. Core values develop over time and reflect a firm’s history and traditions. Additionally, culture consists of the customs of a firm, such as being helpful and supportive toward new employees and customers.

Illustration 22: Organizational culture



Source: Own development

Dimensions of organizational culture

The dimensions of organizational culture help explain the subtle forces that influence employee actions. Recognize that large units within an organization may have a different culture. Five dimensions are of major significance in influencing organizational culture (Ott 1998).

Values

Values are the foundation of any organizational culture. The organization's philosophy is expressed through values, and values guide behavior on a day-to-day basis. Representative values of a firm might include concern for employee welfare, a belief that the customer is always right, a commitment to quality, or a desire to please stakeholders.

Relative diversity

The existence of an organizational culture assumes some degree of homogeneity. Nevertheless, organizations differ in terms of how much deviation can be tolerated. Many firms are highly homogeneous; executives talk in a similar manner and even look alike. Furthermore, people from similar educational backgrounds and fields of specialty are promoted into key jobs. The diversity of a culture also reflects itself in the dress code. Some organizations insist on uniformity of dress, such as wearing a jacket and tie for men when interacting with customers or clients.

Resource allocation and rewards

The allocation of money and other resources has a critical influence on culture. The investment of resources sends a message to people about what is valued in the firm. If a customer-service department is fully staffed and nicely furnished, employees and customers can assume that customer service is important to the company.

Degree of change

A fast-paced, dynamic organization has a culture different from that of a slow-paced, stable one. Top-level managers, by the energy or lethargy of their stance, send messages about how much they welcome innovation.

Strength of the culture

The strength of a culture, or how much influence it exerts, is partially a by-product of the other dimensions. A strong culture guides employees in many everyday actions. It determines, for example, whether an employee will inconvenience himself or herself to satisfy a customer. If the culture is not so strong, employees are more likely to follow their own whims they may decide to please customers only when convenient. Members of an organization are often unaware of the dimensions of their culture, despite being influenced by the culture. A visitor from outside is best able to observe a dimension of culture and how it controls behavior.

Implications of organizational culture

Organizational culture has received much attention because it has a pervasive impact on organizational effectiveness. Here is the outline of several key consequences and implications of organizational culture.

- A major benefit of the right organization culture is that it can enhance productivity, quality, and morale. A culture that emphasizes productivity and quality encourages workers to be more productive and quality conscious. For an increasing number of employees the right organization culture is one that focuses on building relationships rather than emphasizing command and control. Building relationships leads to higher morale.
- Developing a competitive advantage is a consequence of having a culture that favors high productivity, quality, and morale. A competitive advantage also stems from having a cool culture that attracts modern, creative workers. A unique culture is important because it prevents other firms from becoming directly competitive.
- Corporate culture has an enormous influence on the compatibility *of* mergers and acquisitions. Whether the merger is a success, it depends on an effective blending of the two corporate cultures. The major reason for failed mergers is incompatibility between the cultures of the merged firms. The reason most mergers fail has nothing to do with the fact that the strategy didn’t make sense, or that the economics didn’t make sense. It has everything in almost

all cases to do with the integration of people and cultures into a new combined entity (Cole 1998).

- Another important consequence of corporate culture is that it directs the activities of an organization's leaders. Much of an executive's time is spent working with the subtle forces that shape the values of organization members. Of significance, many chief executive officers regard shaping the culture as their most important responsibility. Leaders are also influenced by the existing culture of a firm. It is part of their role to perpetuate a constructive culture.

2.4.2 Organization learning

An important new way of understanding organizations and their cultures is to examine how well they learn. An effective organization engages in continuous learning by proactively adapting to the external environment. In the process, the organization profits from its experiences. Instead of repeating the same old mistakes, the organization learns. A learning organization is one that is skilled at creating, acquiring, and transferring knowledge. It also modifies its behavior to reflect new knowledge and insights (Garvin 1993). An important indicator of the importance of organization learning is that many large firms have created the position of chief learning officer or chief knowledge officer (CKO). Behind the rise of these positions is the growing realization that the key to business success is no longer based heavily on physical assets, but on intellectual assets as well. An often-expressed opinion is that intellectual capital (the sum of ideas that give an organization a competitive edge) is the most decisive form of organization wealth. In addition, the CKO provides external knowledge and research, and makes certain that knowledge is spread as widely as possible throughout the organization. In most organizations there are many people with useful knowledge, such as how to solve a particular problem. Yet other workers who need the information do not know who possesses it. Systematizing such knowledge has been referred to as developing corporate yellow pages. Part of a manager's job is to turn individualized knowledge into shared knowledge. Shared knowledge can be retained, such as knowing who the real decision makers are at a particular customer. In a learning organization, considerable learning takes place in teams as the members share expertise. Another key characteristic of a learning organization is that people are taught to realize that whatever they do in their job can have an effect on the organizational system. For example, a manufacturing worker who finds a way to reduce costs can help the sales department win a large order by selling at a lower price. Organizational learning is related to culture, because the culture must support learning for it to take place. An emphasis on learning gradually becomes part of the organizational culture. The concept of the learning organization has gained considerable momentum in recent years, as organizations have become increasingly dependent on useful knowledge to stay competitive.

2.4.3 Cultural and change management

Managing and control the culture

A major responsibility of top management is to shape, manage, and control the organizational culture. The executive would then have to use his or her best leadership skills to inspire and persuade others toward forming a new culture. Many executives, for example, attempt to move the culture in the direction of higher creativity and risk taking. Another general way of changing an organization's culture is to undergo organization development, a set of specialized techniques for transforming an organization. Among these techniques would be conducting surveys about the need for change, and then involving many people in making the desirable changes. In addition to working with an organization development consultant to bring about cultural change, a manager might do the following:

- **Serve as a role model for the desired attitudes and behaviors:** Leaders must behave in ways that are consistent with the values and practices they wish to see imitated throughout the organization. For a strongly traditional company to undergo a change in which customer needs are satisfied through mass customization, considerable new training is necessary. Top management has to set up teams for training and participate in training sessions themselves (Lienert 1998).
- **Educate from the top down:** The top management board should start an education process that eventually cascaded down to the business units, teams and individuals.
- Establish a reward system that reinforces the culture, such as giving huge suggestion awards to promote an innovative culture.
- Select candidates for positions at all levels whose values mesh with the values of the desired culture.
- Sponsoring new training and development programs that support the desired cultural values. Training programs therefore should receive high levels of encouragement from executives.

Managing change

"The only constant is change" is a cliché frequently repeated in the workplace. To meet their objectives, managers must manage change effectively on an almost daily basis. Change in the workplace can relate to any factor with an impact on people, including changes in technology, organization structure, competition, human resources, and budgets. The following description of managing change has four components: changes at the individual versus organizational level; a model of the change process; why people resist change; and how to gain support for change. Knowledge of all four components is helpful in managing change that affects oneself or others.

Creating change at individual and organizational level

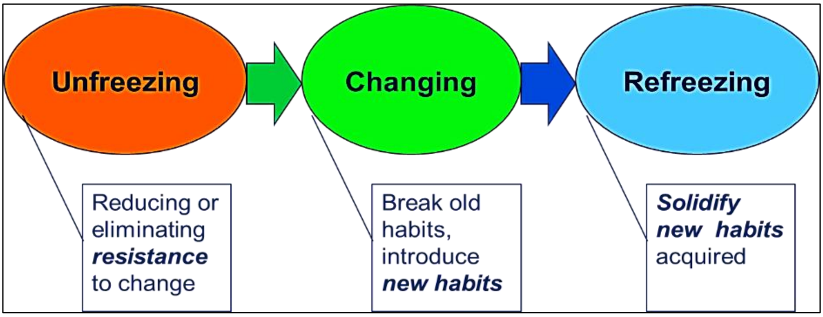
Many useful changes in organizations take place at the individual and small group level, rather than at the organizational level. Quite often individual contributors, middle-level managers, team leaders, and individual contributors identify a small need for change and make it happen. Change at the organizational level receives much more attention that the small, incremental changes brought about by individuals. Change at the organizational level can be regarded as change in the fundamental way in which the company operates, such as moving from a government-regulated utility to a competitive organization. A current analysis suggests that for total organizational change to take place, each employee must be able and eager to rise to the challenge of change. Organizational change requires getting individuals at every level involved.

Unfreezing-changing-refreezing model of change

Kurt Lewin developed a three-step analysis of the change process (Lewin 1951). His unfreezing-changing-refreezing model is widely used by managers to help bring about constructive change. Many other approaches to initiating change stem from this simple model. *Unfreezing* involves reducing or eliminating resistance to change. As long as employees oppose a change, it will not be implemented effectively. To accept change, employees must first deal with and resolve their feelings about letting go of the old. Only after people have dealt effectively with endings are they ready to make transitions. Changing or moving on to a new level usually involves considerable two-way communication, including group discussion. According to Lewin, rather than one-way flow of commands or recommendations, the person implementing the change should make suggestions. The changee should be encouraged to contribute and participate.

Refreezing includes pointing out the success of the change and looking for ways to reward people involved in implementing the change.

Illustration 23: Lewin's model of change



Source: Own development

People's resistance to change

Before a company's managers can gain support for change, they must understand why people resist change. People resist change for reasons they think are important, the most common being the fear of an unfavorable outcome, such as less money or personal inconvenience. People also resist change for such varied reasons as not wanting to disrupt social relationships and not wanting to break well-established habits. Change may also be unwelcome because it upsets the balance of an activity (Strebel 1996). Even when people do not view a change as potentially damaging, they may sometimes cling to a system they dislike rather than change. Workers may also resist change because they are aware of weaknesses in the proposed changes that may have been overlooked or disregarded by management. A sales manager resisted her company's proposal to shift a key product to dealer distribution. She explained that dealers would give so little attention to the product that sales would plunge.

Gaining support for change

Gaining support for change, and therefore overcoming resistance, is an important managerial responsibility. Let us look at techniques for gaining support for change.

Invest time in planning the change

A hard-hitting change strategy is to invest time in planning a change before implementation begins. If possible, the people to be involved in the change should help in the planning. One of the biggest mistakes American organizations make is that they do not take the time required to develop a comprehensive change plan for people who will be affected by the change (Harrington 1991).

Allow for discussion and negotiation

Support for change can be increased by discussing and negotiating the more sensitive aspects of the change. It is important to acknowledge the potential hardships associated with change, such as longer working hours or higher output to earn the same compensation. The two-way communication incorporated into the discussion helps reduce some employee concerns. Discussion often leads to negotiation, which further involves employees in the change process.

Allow for participation

The best-documented way of overcoming resistance to change is to allow people to participate in the changes that will affect them. An application of this concept is allowing employees to set their own rules to increase compliance. A powerful participation technique is to encourage people who already favor the change to help in planning and implementation. These active supporters of the change will be even more strongly motivated to enlist the support of others.

Point out the financial benefits

Given that so many employees are concerned about the financial effects of work changes, it is helpful to discuss these effects openly. If employees will earn more money as a result of the change, this fact can be used as a selling point.

Avoid change overload

Too much change too soon leads to negative stress. So it is helpful to avoid overloading employees with too many sweeping changes in a brief period of time. Too much simultaneous change also causes confusion, and it leads to foot dragging about the workplace innovation. The more far-reaching the innovation, such as restructuring a firm, the greater the reason for not attempting other innovations simultaneously.

Gain political support for change

Few changes get through organizations without the change agent's forming alliances with people who will support his or her proposals. Often this means selling the proposed changes to members of top-level management before proceeding down the hierarchy. It is much more difficult to create change from the bottom up.

Ask effective questions to involve workers in the change

An effective question aims to move people toward a goal or objective instead of dwelling on what might have gone wrong. The effective question focuses on what is right rather than wrong, thereby offering encouragement. As in active listening, effective questions are open-ended. Effective questions are also you-oriented; they focus on the person who is supposed to implement the change.

Build strong working relationships

The better the working relationship with workers, the less the resistance (Maurer 1997). Among the many factors in a good working relationship are trust and mutual respect. Building strong working relationships is also effective because it helps reduce fear about the changes in process. For example, workers might ordinarily fear that a new system of performance evaluation will result in smaller salary increases. With a good working relationship with management, this fear may be reduced somewhat.

2.4.4 Cross cultural management

Sensitivity to cultural differences

The guiding principle for people involved in international enterprise is sensitivity to cultural differences. Cultural sensitivity is awareness of local and national customs and their importance in effective interpersonal relationships. Ignoring the customs of other people creates a communications block that can impede business and create ill will. For example, Americans tend to be impatient to close a deal while business people in many other cultures prefer to build a relationship slowly before consummating an agreement. Cultural sensitivity is also important because it helps a person become a multicultural worker. Such an individual is convinced that all cultures are equally good, and enjoys learning about other cultures. Multicultural workers are usually people who have been exposed to more than one culture in childhood. Multicultural person usually is easily accepted by people from another culture. Multilingual salesperson can explain the advantages of a product in other languages, but it takes a multicultural salesperson to motivate foreigners to buy. Candidates for foreign assignments generally receive training in the language and customs of the country they will work in. Intercultural training exercises include playing the roles of business people from a different culture. Although not all of managers are scheduled to live abroad, the training is designed to help them work effectively with people from another culture. The importance of such training was revealed by a study that found that 30% of placements in foreign countries were unsuccessful. These mistakes were due primarily to the employees' failures to adjust properly to a new culture. Another approach to developing cross-cultural sensitivity is to recognize cross-cultural differences in managerial styles. These differences are cultural stereotypes applicable to many managers from the same country. As in all aspects of human behavior, considerable individual differences can be observed among managers from the same culture. National stereotypes of management styles, as revealed by the research of Geert Hofstede and his collaborators, are as follows (Hofstede 1993):

- **Germany:** German managers are expected to be primarily technical experts, who assign tasks and help solve difficult problems.
- **Japan:** Japanese managers rely on group consensus before making a decision, and the group controls individual behavior to a large extent. Japanese managers are perceived as formal and business-like, less talkative and emotional.
- **France:** French managers, particularly in major corporations, are part of an elite class, and they behave in a superior, authoritarian manner.
- **Holland:** Dutch managers emphasize equality and consensus and do not expect to impress staff members with their status. Dutch managers give staff members ample opportunity to participate in problem solving.
- **The overseas Chinese:** In companies managed by Chinese, major decisions are made by one dominant person, quite often of advanced years.

A problem faced by many managers and professionals on overseas assignments is culture shock. The condition refers to a group of physical and psychological symptoms that can develop when a person is abruptly placed in a foreign culture. Among them are excessive hand washing and concern for sanitation, fear of physical contact with others, fear of being mugged and strong feelings of homesickness (Triandis 1994). Culture shock contributes to the relatively high rate of expatriates who return home early because they are dissatisfied with their assignments. Based on research into successful and unsuccessful expatriate assignments, certain human resource practices could help make overseas assignments more pleasing. These same practices also help reduce culture shock for the expatriates and their families:

- Give families realistic information about their assignments and language training

- Arrange company-sponsored social functions for employees and families that give them an opportunity to interact with nationals from the host company
- Provide job search assistance for spouses who want to work overseas
- Assist with obtaining work permits or visas for spouses
- Offer continuing education benefits packages that will finance either local or correspondence courses

Managing cultural diversity

The globalization of business means that the managerial worker must be able to deal effectively with people from other countries. At the same time it is important to deal effectively with different cultural groups within one's own country and company. Both the international and domestic work force is demographically and culturally diverse. *Demographic diversity* refers to the mix of group characteristics of the organization's work force. Demographic characteristics include such factors as age, sex, race, religion, physical status, and sexual orientation. Cultural diversity refers to the mix of cultures and subcultures to which the organization's work force belongs. It is possible for people with the same demographic characteristics not to share the same cultural characteristics. The term diversity is used to reflect both demographic and cultural diversity. Here we look at the advantages diversity can bring to an organization, and what firms are doing to foster and appreciate diversity. Encouraging demographic and cultural diversity within an organization is a moral responsibility of managers. Also, diversity often brings a competitive advantage to a firm (Eng 1997):

- A key advantage of a diverse work force is that it *improves productivity and profits.* A survey revealed that companies with a diverse work force tend to be innovative and creative. Diverse teams also proved to be more productive. A representative work force facilitates reaching a multicultural market.
- Companies with a favorable record in managing diversity are at a distinct advantage in *recruiting and retaining talented people.* The shortage of qualified workers in Silicon Valley has intensified company efforts to treat people with different backgrounds with fairness and respect. As a result, these information technology companies have attracted workers from around the world and the United States. A diverse work force leads to better rapport with culturally diverse customers, often leading to more sales.

- Diversity within a firm can *improve customer service.* Managing diversity is even more important in a service organization. Organizational diversity tends to increase customer satisfaction by offering mix and culturally diverse in values services.
- An amusing advantage of a diverse work force is that it *reduces possible cultural bloopers.* One example is that you can readily get the input from the right person to help with translations and product names aimed at other countries.

The combined forces of the spirit of the times and the advantages of valuing diversity have led organizations to take initiatives to manage diversity adequately. Three representative *organizational practices* that enhance diversity management are corporate policies about diversity, the establishment of employee network groups, and valuing differences programs.

Corporate policies favoring diversity

Many companies formulate policies that encourage and foster diversity. A typical policy is committed to recruiting, selecting, training, and promoting individuals based solely on their capabilities and efforts. Such policies do lead to effective management of diversity. A commitment to diversity was most likely to succeed if the company established a corporate diversity policy (Collingwood 1996).

Employee network groups

A company approach to recognizing cultural differences is to permit and encourage employees to form employee network groups. The network group is composed of employees throughout the company who affiliate on the basis of group characteristics such as race, ethnicity, sex, sexual orientation, or physical ability status. Although some human resource specialists are concerned that network groups can lead to divisiveness, others believe they play a positive role. Company network groups also help their organizations recruit through such means as providing links to minority group members in the community.

Valuing diversity training programs

To help employees relate comfortably to people of different cultures and appreciate diversity, many companies conduct valuing diversity programs. These programs provide an opportunity for employees to develop the skills necessary to deal effectively with each other and with customers in a diverse environment. Quite often the program is aimed at minimizing open expressions of racism and sexism. All forms of valuing differences training center around increasing people’s awareness of and empathy for people who are different in some noticeable way from themselves. Training programs in valuing differences focus on the ways that men and women, or people of different races, reflect different values, attitudes, and cultural backgrounds. The objectives of the valuing differences training program include one or more of the following (Roosvelt 1991):

- Fostering awareness and acceptance of individual differences
- Helping participants understand their own feelings and attitudes about people who are different
- Exploring how differences might be tapped as assets in the workplace
- Exploring work relations between people who are different from each other

An essential part of relating more effectively to diverse groups is to empathize with their point of view. To help training participants empathize, representatives of various groups explain their feelings related to workplace issues.

2.5 Communication and teamwork

2.5.1 Communication process

Anytime people send information back and forth to each other they are communicating. Communication is the process of exchanging information by the use of words, letters, symbols, or nonverbal behavior. Sending messages to other people, and having the messages interpreted as intended, is both complex and difficult. A major part of the problem is that communication is dependent on perception. People may perceive words, symbols, actions, and even colors differently, depending on their background and interests.

Steps in the communication process

- Encoding is the process of organizing ideas into a series of symbols, such as words and gestures, designed to communicate with the receiver. Word choice has a strong influence on communication effectiveness. The better a person’s grasp of language, the easier it is for him or her to encode. If the choice of words or any other symbol is appropriate, the better the chance that communication will proceed smoothly.

- **Communication media:** The message is sent via a communication medium, such as voice, telephone, paper, or electronic mail. It is important to select a medium that fits the message. It would be appropriate to use the spoken word to inform a coworker that his shirt was torn. It would be inappropriate to send the same message over an electronic bulletin board. Many messages in organizations are sent nonverbally, through the use of gestures and facial expressions.
- **Decoding the message:** In decoding, the receiver interprets the message and translates it into meaningful information. Barriers to communication are most likely to surface at the decoding step. People often interpret messages according to their psychological needs and motives. After understanding action comes, the receiver does something about the message. If the receiver acts in the manner the sender wants, the communication has been totally successful. From the manager's perspective, the success of a message is measured in terms of the action taken by the staff member. Understanding alone is not sufficient. Many people understand messages but take no constructive action.
- **Feedback:** Messages sent back from the receiver to the sender are referred to as feedback. Without feedback it is difficult to know whether a message has been received and understood. The feedback step also includes the reactions of the receiver. If the receiver takes actions as intended by the sender, the message has been received satisfactorily. Action is a form of feedback, because it results in a message being sent back to the original sender from the receiver. Many missteps can occur between the step of encoding and decoding. Noise, or unwanted interference, can distort or block the message.

2.5.2 Nonverbal communication

The most obvious modes of communication are speaking, writing, and sign language. A substantial amount of interpersonal communication also occurs through nonverbal communication, the transmission of messages by means other than words. Body language refers to those aspects of nonverbal communication directly related to movements of the body such as gestures and posture. Nonverbal communication usually supplements rather than substitutes for writing, speaking, and sign language. The general purpose of nonverbal communication is to express the feeling behind a message, such as shaking one's head vigorously to indicate an emphatic "yes". Nonverbal communication incorporates a wide range of behavior. Nevertheless, it can be divided into the following nine categories (Argyle 1990)

Environment

The physical setting in which the message takes place communicates meaning. Included here would be office decor, type of automobile, and the restaurant or hotel chosen for a business meeting.

Body placement

The placement of one's body in relation to someone else is widely used to transmit messages. Facing a person in a casual, relaxed style indicates acceptance. Moving close to another person is also a general indicator of acceptance. Yet moving too close may be perceived as a violation of personal space, and the message sender will be rejected.

Posture

Another widely used clue to a person's attitude is his or her posture. Leaning toward another person suggests a favorable attitude toward the message that person is trying to communicate. Leaning backward communicates the opposite. Standing up straight is generally interpreted as an indicator of self-confidence, while slouching is usually a sign of low self-confidence.

Hand and body gestures

Your hand and body movements convey specific information to others. Positive attitudes toward another person are shown by frequent gesturing. In contrast, dislike or disinterest usually produces few gestures. An important exception here is that some people wave their hands while in an argument, sometimes to the point of making threatening gestures. The type of gesture displayed also communicates a specific message.

Facial expressions and movement

The particular look on a person's face and movements of the person's head provide reliable cues as to approval, disapproval, or disbelief.

Voice quality

Aspects of the voice such as pitch, volume, tone, and speech rate may communicate confidence, nervousness, and enthusiasm. Intelligence is often judged by how people sound. Research suggests that the most annoying voice quality is a whining, complaining, or nagging tone.

Clothing, dress, and appearance

The image a person conveys communicates such messages as "I feel powerful" and "I think this meeting is important." For example, wearing one's best business attire to a performance appraisal interview would communicate that the person thinks the meeting is important. Another important meaning of dress is that it communicates how willing the employee is to comply with organizational standards. By deviating too radically from standard, such as wearing a suit on "Dress Down" day, the person communicates indifference. Employees failing to maintain dress standards suffer consequences that range from insults and ridicule to termination.

Mirroring

To mirror is to build rapport with another person by imitating his or her voice tone, breathing rate, body movement, and language. Mirroring relies 20% on verbal means, 60% on voice tone, and 20% on body physiology. A specific application of mirroring is to conform to the other person's posture, eye movements, and hand movements.

Use of time

A subtle mode of nonverbal communication in organizations is the use of time. High-status individuals, such as executives, send messages about their power by keeping lower-ranking people waiting. Ambitious people attempting to get ahead are seldom late for appointments in American culture. However, a high-ranking official might be late for a meeting, and that same amount of lateness might be perceived as a symbol of importance or business. Finally, many nonverbal signals are ambiguous and non-reliable.

2.5.3 Communication infrastructure

Messages in organizations travel over many different channels or paths. Communication channels can be formal or informal and can be categorized as downward, upward, horizontal, or diagonal. The widespread use of e-mail and social media has greatly facilitated sending messages in all directions.

Formal communication channels are the official pathways for sending information inside and outside an organization. The primary source of information about formal channels is the organization chart. It indicates the channels messages are supposed to follow. By carefully following the organization chart, a maintenance technician would know how to transmit a message to the chairman of the board. In many traditional large organizations, the worker may have to go through eight management or organizational levels. Modern organizations make it easier for lower-ranking workers to communicate with high-level managers. In addition to being pathways for communication, formal channels are also means of sending messages. These means include publications such as newsletters and newspapers, meetings, written memos, e-mail, traditional bulletin boards, and electronic bulletin boards. One important communication channel can be classified as formal or informal. By walking around managers involve and intermingle freely with workers on the shop floor, in the office, with customers, and at company social events. By spending time in personal contact with employees, the manager enhances open communication. However, a manager who circulates throughout the company violates the chain of command. She or he, therefore, is not following a formal communication path.

Messages in organizations travel in four directions: downward, upward, horizontally, and diagonally. Over time, an organization develops communication networks corresponding to these directions. A communication network is a pattern or flow of messages that traces the communication from start to finish.

- Downward communication is the flow of messages from one level to a lower level. It is typified by a supervisor giving orders to a team member or by top-level managers sending an announcement to employees. A survey of employees from different companies indicated that an area of concern is the quantity and quality of communications that they received from management.
- Upward communication is the transmission of messages from lower to higher levels in an organization. Although it may not be as frequent as downward communication, it is equally important. Upward communication tells managers how well messages have been received. The same communication path is also the most important network for keeping managers informed about problems. By walking around and simply speaking to employees, managers facilitate upward communication. In addition, companies have developed many programs and policies to facilitate bottom-up communication. Three such approaches follow:
- **Open-door policy:** An open-door policy allows any employee to bring a gripe to top management's attention. The policy enhances upward communication because it informs top management about problems employees are experiencing.
- **Workout program:** In a town meeting facilitators are present to encourage the audience to express their concerns freely. Participants

could evaluate various aspects of their business. By using upward communication, management board attempts to achieve more speed and simplicity in its operations.

- **Complaint program:** Many organizations have formal complaint programs. Complaints sent up through channels include those about supervisors, working conditions, personality conflicts, sexual harassment, and inefficient work methods.
- Horizontal communication is sending messages among people at the same organizational level. Horizontal communication frequently takes the form of coworkers from the same department talking to each other. When coworkers are not sharing information with and responding to each other, they are likely to fall behind schedules and miss deadlines as efforts are duplicated and quality suffers. Another type of horizontal communication takes place when managers communicate with other managers at the same level. Horizontal communication is the basis for cooperation. People need to communicate with each other to work effectively in joint efforts. For example, they have to advise each other of work problems and ask each other for help when needed. Moreover, extensive lateral communication enhances creativity.
- Diagonal communication is the transmission of messages to higher or lower levels in different departments. A typical diagonal communication event occurs when the head of the marketing department needs some pricing information. She telephones or sends an e-mail to a supervisor in the finance department to get his input. The supervisor, in turn, telephones a specialist in the data processing department to get the necessary piece of information. The marketing person has thus started a chain of communication that goes down and across the organization.

Organizations do not function by formal communication channels alone. Another system of communication, called an *informal communication channel*, is also needed. Informal communication channels are the unofficial network that supplements the formal channels. Most of these informal channels arise out of necessity. For example, people will sometimes depart from the official communication channels to consult with a person with specialized knowledge. Any time two or more employees consult each other outside formal communication channels, an informal communication channel has been used. Two other major aspects of informal communication channels are the grapevine and the rumors it carries. The *grapevine* is the informal means by which information is transmitted in organizations. The term grapevine refers to tangled pathways that can distort information. This perception is an oversimplification. The grapevine is sometimes used purposely to disseminate information along informal lines. For example, management might want to hint to employees that the plant will be closed unless the employees become more productive. Although the plans are still tentative, feeding them into the grapevine may result in improved motivation and productivity. Some important characteristics of the grapevine are (Zaremba 1989):

- A substantial number of employees consider the grapevine to be their primary source of information about company events. The grapevine often has a bigger effect on employees than do messages sent over formal channels. Messages sent over formal communication channels are often perceived to be stale news.
- Information is usually transmitted along the grapevine with considerable speed. The more important the information, the greater the speed.
- Nearly but not all of messages transmitted along the grapevine are true. Because so many grapevine messages are essentially correct, employees believe most of them. Nevertheless, messages frequently become distorted and misunderstood. By the time a rumor reaches the majority of employees, it is likely to contain false elements.

The grapevine is the primary medium for transmitting rumors and therefore can create some problems. Participating in or not controlling the company grapevine can result in legal liability, such as being sued for defamation of character. Defamation of character occurs when an individual communicates something that is not true to a third person without any kind of professional privilege to do so. Another problem is that false rumors can be disruptive to morale and productivity. Some employees will take action that hurts the company and themselves in response to a rumor. Severe negative rumors dealing with products or services, especially about product defects or poisonings, must be neutralized to prevent permanent damage to an organization. *Chance encounters* are unscheduled informal contact between managers and employees and can be an efficient and effective informal communication channel. Effective managers do not confine their communications to formal meetings. Instead, they collect valuable information during chance encounters. Spontaneous communication events may occur in the cafeteria, in the halls, and on the elevator. A chance encounter differs is not a planned event and occurs unintentionally.

2.5.4 Overcome barriers in communication

Messages sent from one person to another are rarely received exactly as intended. Barriers exist at every step in the communication process. The input is the message sent by the sender. Ordinarily, the message is spoken or written, but it could be nonverbal. Barriers to communication, or noise, are shown as throughput, the processing of input. Noise is always a potential threat to effective communication because it can interfere with the accuracy of a message. Noise creates barriers to effective transmission and receiving of messages. The barriers may be related to the receiver, the sender, or the environment. The output in this model is the message as received. Interference is most likely to occur when a message is complex, arouses emotion, or clashes with a receiver's mental set. An emotionally arousing message deals with such topics as money or personal inconvenience. A message that clashes with a receiver's usual way of viewing things requires the person to change his or her typical pattern of receiving messages.

Low motivation and interest

Many messages never get through because the intended receiver is not motivated to hear the message or is not interested. The challenge to the sender is to frame the message in such a way that it appeals to the needs and interests of the receiver. Sending a message at the right time is part of appealing to motives and interest. Messages should be sent at a time when they are the most likely to meet with a good reception.

Inappropriate language

The language used to frame a message must be suited to the intended receivers. Language can be inappropriate for a host of reasons. Two factors of particular significance in a work setting are semantics and difficulty level. Semantics is the study of meaning in language forms. The message sender should give careful thought to what certain terms will mean to receivers. The difficulty level of language is its ease of comprehension. Communicators are typically urged to speak and write at a low difficulty level. There are times, however, when a low difficulty level is inappropriate. The use of jargon, or insider language, is closely related to difficulty level. When dealing with outsiders, jargon may be inappropriate; with insiders, it may be appropriate. Jargon can help the sender establish a good relationship with the receivers.

Defensive communication

An important general communication barrier is defensive communication, the tendency to receive messages in a way that protects self-esteem. People communicate defensively through the process of denial, the suppression of information one finds to be uncomfortable. It serves as a major barrier to communication because many messages sent in organizations are potentially uncomfortable.

Filtering

Filtering is coloring and altering information to make it more acceptable to the receiver. Telling the manager what he or she wants to hear is part of filtering. It is another variation of defensive communication.

Insufficient nonverbal communication

Effective communicators rely on both verbal and nonverbal communication. If verbal communication is not supplemented by nonverbal communication, messages may not be convincing.

Information overload

Information overload, or communication overload, occurs when an individual receives so much information that he or she becomes overwhelmed. As a result, the person does a poor job of processing information and receiving new messages. Many managers suffer from information overload because of extensive e-mail in addition to the messages from office phones, mobiles, pagers, hard-copy correspondence, and trade magazines.

Poor communication skills

A message may fail to register because the sender lacks effective communication skills. The sender might garble a written or spoken message so severely that the receiver cannot understand it, or the sender may deliver the message so poorly that the receiver does not take it seriously. Communication barriers can result from deficiencies within the receiver. A common barrier is a receiver who is a poor listener.

Electronic communication problems

Advanced technology has become a fundamental part of communication in the workplace, yet it has created several communication problems. Many people conduct business with each other exclusively by e-mail, thus missing out on the nuances of human interaction. A manager can smile and express sympathy through a nod of the head. When somebody asks or answers a question in person, it is easier to probe for more information than if the interaction took place through e-mail. E-mail, in general, is better suited to communicating routine rather than complex or sensitive messages. When dealing with sensitive information it is better to deliver the message face to face or at least in a telephone conversation. Today most workers are using Viber, Facebook, Tweet or Instagram to communicate with others. Because of their comprehensiveness and 24-hourper- day accessibility, they contribute to information overload. With videoconferencing, such as by using Skype, a meeting can be held with workers in several different locations. One result is decreased travel expenses. A general principle is that electronic communication should be supplemented with face-to-face communication if relationship building is important. When geography permits, it is helpful to visit a customer or internal work associate from time to time to build a relationship not possible by electronic communication alo-ne.

Overcoming barriers to communication

Most barriers to communication are surmountable. The general strategy for overcoming them has two parts. First, managers must be aware that these potential barriers exist. Second, managers should develop a tactic to deal with each one. This section below will describe nine strategies and tactics for overcoming communication barriers.

Understand the receiver

To be an effective communicator, the sender must understand the receiver. Understanding the receiver is a strategy that can assist in overcoming every communication barrier. Achieving understanding takes empathy, the ability to see things as another person does. Empathy leads to improved communication, because people are more willing to engage in a dialogue when they feel understood. Managers especially need empathy to communicate with employees who do not share their values. Another reason empathy improves communication is that it helps build rapport with the other person. Rapport, in turn, substantially improves communication.

Communicate assertively

Many people create their own communication barriers by expressing their ideas in a passive or indirect mode. If instead they explained their ideas explicitly and directly, and with feeling, the message would be more likely to be received. Being assertive also contributes to effective communication because assertiveness enhances persuasiveness. Another use of assertiveness in overcoming communication barriers in the workplace is informative confrontation, a technique of inquiring about discrepancies, conflicts, and mixed messages. Confronting people about the discrepancies in their message provides more accurate information. Another way of being assertive is to repeat your message and use multiple channels. Communication barriers may prevent messages from getting through the first time they are sent. These barriers include information overload and the receiver's desire not to hear or see the information. By being persistent, message is more likely to be received. Repetition of the message becomes even more effective when more than one communication channel is used. Effective communicators follow up spoken agreements with written documentation. The use of multiple channels helps accommodate the fact that some people respond better to one communication mode than another.

Use two-way communication

Many communication barriers can be overcome if senders engage receivers in conversation. A dialogue helps reduce misunderstanding by communicating feelings as well as facts. Both receiver and sender can ask questions of each other. Two-way interaction also overcomes communication barriers because it helps build connections among people. A face-to-face communication style can be implemented by talking directly with employees instead of relying so heavily on e-mail and printed messages.

Unite with common vocabulary

People from various units within organization may speak in terms so different that communication barriers are erected. For example, the information systems group and the marketing group may use some words and phrases not used by the other. The various departments might retain some jargon, and their unique perspectives, but they would also be united by a common language.

Elicit verbal and nonverbal feedback

To be sure that the message has been understood, ask for verbal feedback. Feedback can also be used to facilitate communication in a group meeting. After the meeting, provide everyone in attendance with written follow-up to make sure they all left with the same understanding. It is also important to observe and send nonverbal feedback. Nonverbal indicators of comprehension or acceptance can be more important than verbal indicators. The expression on the receiver's face can also be due to acceptance or rejection.

Enhance listening skills

Many communication problems stem from the intended receiver not listening carefully. Unless a person receives messages as intended, he or she cannot get work done properly. Managers need to be good listeners because so much of their work involves eliciting information from others in order to solve problems. Reducing communication barriers takes active listening. Active listening means listening for full meaning, without making premature judgments or interpretations. An active listener should follow these six suggestions (Schwartz 1991):

The receiver listens for total meaning of the sender's message

By carefully analyzing what is said, not said, and nonverbal signals, manager will uncover a fuller meaning in the message. Assume that the information is not what the receiver wants to hear, an active listener will nevertheless continue listening.

The receiver reflects the message back to the sender

Show the sender that the receiver understands him or her by providing summary reflections or repetition in some parts. The sender and receiver both may engage in a concluding discussion.

The receiver asks questions instead of making statements

By asking questions receiver will start the dialogue that facilitates active listening.

The receiver does not blurt out questions as soon as the sender is finished speaking

Being too quick to ask questions gives the impression that the receiver are formulating reply rather than listening. Before asking, receiver should paraphrase the speaker's words. Paraphrasing followed by asking a question will often decrease miscommunication.

Be sensitive to cultural differences

As organizations have become more culturally diverse, the possibility of culturally based communication barriers has increased. The list that follows presents several strategies and specific tactics to help overcome cross-cultural communication barriers.

Be sensitive to the fact that cross-cultural communication barriers exist

Awareness of these potential barriers will alert you to the importance of modifying your communication approach.

Show respect for all workers

An effective strategy for overcoming cross-cultural communication barriers is to respect all people in the workplace. A key component of respect is to perceive other cultures as being different than but not inferior to your own. Respecting other people's customs can translate into specific attitudes, such as respecting one coworker for wearing native dress.

Use straightforward language and speak clearly

When working with people who do not speak your language fluently, speak in an easy-to-understand manner. Minimize the use of idioms and analogies specific to your language.

Observe cultural differences in etiquette

Violating rules of etiquette without explanation can erect immediate communication barriers. A major rule of etiquette in many countries is that people address each other by the last name unless they have worked together for a long time. Etiquette experts recommend that managers should explain the difference in custom to prevent misunderstanding.

Be sensitive to differences in nonverbal communication

Be alert to the possibility that nonverbal signal may be misinterpreted by a person from another culture. Hand gestures are especially troublesome.

Do not be diverted by style, accent, grammar, or personal appearance

The superficial factors are all related to business success, they are difficult to interpret when judging a person from another culture. Therefore, it is better to judge the merits of the statement or behavior.

Be sensitive to gender differences

Despite the trend toward equality in organizations, much has been made recently of identifying differences in communication styles between men and women. Awareness of these differences helps lower potential communication barriers between men and women. Differences in gender-related communication style include the following (Tannen 1994):

- Women prefer to use communication for rapport building. In contrast, men prefer to use talk primarily as a means to preserve independence and status by displaying knowledge and skill.
- Men prefer to work their problems out by themselves, whereas women prefer to talk out solutions with another person.
- Women are more likely to compliment the work of coworkers, while men are more likely to be critical.
- Men tend to be more directive in conversation, while women emphasize politeness.

- Women tend to be more conciliatory when facing differences, while men become more intimidating.
- Men are more interested than women in calling attention to their accomplishments or hogging recognition. As a result, men are more likely to dominate discussion during meetings.

Understanding these differences can help interpret the behavior of people, thus avoiding a communications block. For example, if a team member who is male is stingy with praise, remember that he is simply engaging in gender typical behavior. Do not take it personally. If a team member who is female talks about a problem without looking for a quick solution, do not get frustrated. She is simply engaging in gender-typical behavior by looking for support. A general suggestion for overcoming gender-related communication barriers is for men to improve communication by becoming more empathic listeners. Women can improve communication by becoming more direct.

Engage in meta-communication

When confronted with a communication problem, one response is to attempt to work around the barrier, perhaps by using one of the methods already described. A more typical response is to ignore the barrier by making no special effort to deal with the problem. Another possibility is to meta-communicate, or communicate about your communication to help overcome barriers or resolve a problem. Meta-communicating is also helpful when managers have reached a communication impasse with another person.

Conduct effective meeting

Much of workplace communication, including group decision making, takes place in meetings. When conducted poorly, meetings can represent a substantial productivity drain. The suggestions that follow are for those who conduct meetings. However, many also apply to participants. By following these suggestions, managers increase the chance that the meetings will be effective communication vehicles.

Meet only for valid reasons

Many meetings lead to no decisions because there was no valid reason for calling them. Meetings are necessary only when there is a need for coordinated effort and group decision making. Memos can be substituted for meetings when factual information needs to be disseminated and discussion is unimportant.

Have a specific agenda and adhere to it

Meetings are more productive when an agenda is planned and followed carefully. People should see the agenda in advance so they can give some careful thought to the issues; preliminary thinking helps people arrive at more realistic decisions. In addition, assign maximum discussion times to the agenda items.

Share decision-making authority

A key attribute of an effective problem-solving meeting is authority sharing by the leader. Unless authority is shared, the members are likely to believe that the hidden agenda of the meeting is to seek approval for the meeting leader's tentative decision.

Keep comments brief and to the point

A major challenge facing the meeting leader is to keep conversation on track. Verbal rambling by participants creates communication barriers because other people lose interest. The meeting leader should keep comments on target in an effective way.

Encourage critical feedback and commentary

Meetings are more likely to be fully productive when participants are encouraged to be candid with criticism and negative feedback. Openness helps prevent groupthink and also brings important problems to the attention of management.

Strive for wide participation

One justification for conducting a meeting is to obtain multiple inputs. Although not everybody is equally qualified to voice a sound opinion, everyone should be heard.

Provide summaries for each major point

Many ideas are expressed in the typical meeting, so some members may have trouble following what has been accomplished. Summarizing key points can help members follow what is happening and make better-informed decisions.

Strive for consensus, not total acceptance

Few groups of assertive individuals will reach total agreement on most agenda items. Furthermore, disagreement is healthy because it can sharpen and refine decision making. It is more realistic to strive for consensus, state of harmony, general agreement, or majority opinion. When consensus is achieved, each member should be willing to accept the plan because it is logical and feasible.

Congratulate members when they reach a decision

Complimenting group members when they reach a decision reinforces decision-making behavior and increases the probability that consensus will be reached the next time the group faces a problem.

Ensure that all follow-up action is assigned and recorded

Distribute a memo summarizing who is responsible for taking what action and by what date.

2.5.5 Teams and groups

A *group* is a collection of people who interact with each other and are working toward some common purpose, and perceive themselves to be a group. In contrast, people in an office elevator would not be a group because they are not engaged in collective effort. A *team* is a special type of group. Team members have complementary skills and are committed to a common purpose, a set of performance goals, and an approach to the task. *Teamwork* means that there is understanding and commitment to group goals on the part of all team members (Katzenbach 1003). Groups and teams have been classified in many different ways. Here we describe the distinction between formal and informal groups, and among four different types of work teams.

Some groups are formally sanctioned by management and the organization itself, while others are not. A *formal group* is one deliberately formed by the organization to accomplish specific tasks and achieve goals, for example: departments, project groups, task forces, committees, and quality teams. In contrast, *informal groups* emerge over time through the interaction of workers. Although the goals of these groups are not explicitly stated, informal groups typically satisfy a social or recreational purpose. Members of a department who dine together occasionally would constitute an informal group. Yet the same group might also meet an important work purpose of discussing technical problems of mutual interest.

All workplace teams have the common elements of people working together cooperatively and members possessing a mix of skills. Four other representative work teams include cross-functional teams, top-management teams, affinity groups, and virtual teams. Projects, task forces, and committees are quite similar in design to cross-functional teams, so they do not receive separate mention here. No matter what label the team carries, its broad purpose is to contribute to a collaborative workplace in which people help each other achieve constructive goals. The idea is for workers to collaborate (a high level of cooperation) rather than compete with or prevent others from getting their work done.

A *cross-functional team* is a work group composed of workers from different specialties, but about the same organizational level, who come together to accomplish a task. The purpose of the cross-functional team is to get workers from different specialties to blend their talents toward a task that requires such a mix. A major advantage of a cross-functional team for product development is that they enhance communication across groups, thus saving time. In addition to product development, cross-functional teams are used for such purposes as improving quality, reducing costs, and running a company (in the form of a top-management team). The outside perspective is thought to be effective in stimulating the thinking of other team members. To perform well on a cross-functional team a person would have to think in terms of the good of the larger organization, rather than in terms of his or her own specialty.

Top management team: The group of managers at the top of an organization is referred to as a team, the management team, or the top-management team. The CEO gets most of the publicity, along with credit and blame for what goes wrong. Nevertheless, groups of top-level managers are teams in the sense that most major decisions are made collaboratively with all members of the top-management group included. Michael Dell (Dell Computers) and Steve Jobs (Apple Computers) are examples of highly visible and brilliant CEOs who regularly consult with their trusted advisors before making major decisions.

Affinity groups: Different types of work teams continue to emerge to meet organizational needs. A recent example of a new variation of a team is the affinity group, an employee-involvement group composed of professional-level (or knowledge) workers. The members are colleagues who meet regularly to share information, capture opportunities, and solve problems affecting the workgroup and the larger organization. The group is self-managing and has a formal charter. An application of affinity group took place at a large branch of Merrill Lynch. A group of investment counselors met regularly to discuss how they could better meet the needs of their many clients who were accepting early retirement. The group developed a package of investments that met the special needs of people who retired young and had a long life expectancy.

Virtual teams: A virtual team is a small group of people who conduct almost all of their collaborative work by electronic communication rather than face-to-face meetings. E-mail and social media are the usual medium for sharing information and conducting meetings. Most high-tech companies make some use of virtual teams and cyber-meetings. Strategic alliances in which geographically dispersed companies work with each other are a natural for virtual teams. IBM makes some use of virtual teams in selling information technology systems, partially because so many IBM field personnel work from their homes and vehicles. Despite the efficiency of virtual teams, there are times when face-to-face interaction is necessary to deal with complex and emotional issues.

2.5.6 Effective work groups

Groups, as do individuals, have characteristics that contribute to their uniqueness and effectiveness. Effectiveness includes such factors as objective measures of production, favorable evaluations by the manager, and worker satisfaction. These characteristics can be grouped into seven factors or categories (Campion 1996).

Enriched job design: Effective work groups generally follow the type of job design associated with job enrichment. For example, the task is perceived to be significant and the group members work on an entire task.

Interdependent tasks and rewards: Effective work groups are characterized by several types of group member dependencies on one another. Such groups show task interdependence in that the members interact with and depend on one another to accomplish the work. Interdependence of rewards refers to the fact that the group is working toward a common goal, and receives at least some of their rewards based on achieving group goals.

Right mix and size: A diverse group of members with respect to factors such as experience, knowledge, and education generally improves problem solving. Cultural diversity tends to enhance creativity because various viewpoints are brought into play. Only when each member of the group enjoys high-quality interactions can the full benefits of diversity be realized. The interactions relate to both the task itself and social interactions. Groups should be large enough to accomplish the work, although larger groups tend to be less cohesive. Cross-functional teams, work teams, committees, and task forces tend to be most productive with 7-10 members. Another important composition factor is the quality of the group or team members. Bright people with constructive personality characteristics contribute the most to team effectiveness. Teams of members higher in mental ability, conscientiousness, extraversion, emotional stability received higher contribute to higher ratings for performance.

Good support for the work group: One of the most important characteristics of an effective work group is the support it receives from the organization. Key support factors include giving the group the information it needs, coaching group members, providing the right technology, granting recognition and rewards.

Right processes within the group

Many processes (activities) take place within the group that influences effectiveness. One process characteristic is the belief that the group can do the job, reflecting high team spirit. Effectiveness is also enhanced when workers provide social support to each other through such means as helping each other have positive interactions. Workload sharing is another process characteristic related to effectiveness. Communication and cooperation within the work group also contributes to effectiveness. Collectively, the right amount of these process characteristics contributes to cohesiveness, or a group that pulls together to achieve synergy.

Follows processes and procedures

Teams that can be trusted to follow work processes and procedures tend to perform better. Adhering to such processes and procedures is also associated with high-quality output.

Familiarity with jobs and coworkers

Familiarity refers to the specific knowledge group members have of their jobs, coworkers, and the work environment. The high-performing teams perform a variety of tasks that members perceived to be significant. They are allowed a high degree of self-management, interdependent in terms of tasks, goals and feedback, and function as a single team. They tend to have members with complementary skills who are flexible in the tasks performed. They are not too large for the tasks assigned. They are well supported by the organization in terms of training, managerial support, cooperation communication from other teams. They have confidence in teams' abilities, members support one another, communicate, cooperate, and fairly share the workload.

The characteristics of an effective work group or team should be supplemented by effective leadership. Team leaders must emphasize coaching more than controlling. Instead of being a supervisor, the leader becomes a team developer.

Roles for team and group members

Another perspective on the group process is to identify team member roles. 12 Positive roles are described here to help identify areas of possible contribution in group or team effort.

- **Knowledge contributor:** Being technically proficient, the knowledge contributor provides the group with useful and valid information. He or she is intent upon helping with task accomplishment and values sharing technical expertise with team members.
- **Process observer:** A person occupying this role forces the group to look at how it is functioning. The process observer might also point to excellent team progress.
- **People supporter:** A person occupying this role assumes responsibility for providing emotional support to teammates and resolving conflict. He or she serves as a model of active listening while others are presenting; supports and encourages team members even when disagreeing with them.
- **Challenger:** To prevent complacency and noncritical thinking, a team needs one or more members who confront and challenge bad ideas. A challenger will criticize any decision or preliminary thinking that is deficient in any way. Effective interpersonal skills are required to be a challenger. Antagonistic, attack-style people lose their credibility quickly.
- **Listener:** If other people are not heard, the full contribution of team effort cannot be realized. As a result of being a listener, a team member or team leader is able to summarize discussion and progress for the team.
- **Mediator:** The two antagonists develop such polarized viewpoints that they are unwilling to move toward each other's point of view. Furthermore, they have moved beyond the point that conciliation is possible. At this point the team leader or a team member must mediate the dispute.
- **Gatekeeper:** A recurring problem in group effort is that some members may fail to contribute because other team members dominate the discussion. When the opportunity gate is closed to several members, the gatekeeper pries it open. He or she requests that a specific team member be allowed to contribute, or that the member's past contribution be recognized.
- A team member who plays several of the roles just described is likely to be perceived as an *informal leader*, or a person who exercises leadership without having the formal title.

Managerial practices in team building

Managerial practices include team leader practices because many groups and teams do not use the title *team leader* for the person in charge. A department manager, for example, might be able to build teamwork. Good teamwork enhances, but does not guarantee, a successful team. For example, a group with excellent teamwork might be working on improving a service no longer valued by the company or customers. The manager can begin by helping team members believe they have an urgent, constructive purpose. A demanding performance and challenge help create and sustain the team. A major strategy for teamwork is to promote the attitude that working together effectively is an expected norm. Developing such a culture of teamwork will be difficult when a strong culture of individualism exists within the firm. Using consensus decision-making style is a way to reinforce teamwork. A sophisticated approach to enhancing teamwork is to feed team members valid facts and information that motivate them to work together. New information prompts the team to redefine and enrich its understanding of the challenge it is facing, thereby focusing on a common purpose. A subtle yet potent method of building teamwork is for the team to use language that fosters cohesion and commitment. In-group jargon bonds a team and sets the group apart from others. To foster teamwork, the manager should minimize micromanagement, or supervising group members too closely and second-guessing their decisions. Creating physical structures suited for teams is an effective way to support teamwork. Group cohesiveness and teamwork is enhanced when teammates are located close together and can interact frequently and easily. A useful method for getting people to exchange ideas is to establish a shared physical facility, such as a conference room, research library, or beverage lounge. A key strategy for encouraging teamwork is to reward the team as well as individuals. The most convincing team incentive is to calculate compensation partially on the basis of team results.

Managerial practices in team management

Being an effective team player is important because without such capability, collaborative effort is not possible. Being an effective team player is also important because of managerial perceptions. Here we describe a number of skills, actions, and attitudes contributing to effective team play. For convenience, five are classified as task-related, and five as people-related.

- **Task related actions and attitudes:** Task-related actions and attitudes focus on the work the group or team is attempting to accomplish rather than on interpersonal relationships. An effective team player is likely to behave and think in the following ways:

- **Possesses and shares technical expertise:** Most people are chosen to join a particular work team on the basis of their technical or functional expertise. To use technical expertise to outstanding advantage one must be willing and able to share that expertise. It is also necessary for the technical expert to be able to communicate with team members in other disciplines who lack the same technical background.
- **Assumes responsibility for problems:** The outstanding team player assumes responsibility for problems. If a problem is not yet assigned to a specific person, he or she will assume it.
- **Is willing to commit to team goals:** The exceptional team player will commit to team goals even if his or her personal goals cannot be achieved for now.
- **Is able to see the big picture:** A basic management skill is to think conceptually. Exceptionally good team players should have the same skill. The team player or team leader who can help the group focus on its broader purpose plays a vital role.
- **Is willing to ask tough questions:** A tough question helps the group achieve insight into the nature of the problem it is facing, what it might be doing wrong, and whether progress is sufficient. Tough questions can also be asked to help the group see the big picture.
- **Is willing to try something new:** An effective team player is willing to experiment with new ideas even if the old method works relatively well. Trying something new leads to a spirit of inventiveness that helps keep the group vibrant.
- **People related actions and attitudes:** Outstanding team players are consciously aware of their interpersonal relations within the group. They recognize that effective interpersonal relationships are important for getting tasks accomplished. Outstanding team players are also aware that interpersonal relationships should contribute to task accomplishment. An outstanding team player is likely to do or think the following:
- **Trust team members:** If team player does not believe that the other team members have your best interests at heart, it will be difficult to share opinions and ideas. Trusting team members

includes believing that their ideas are technically sound and rational until proven otherwise or taking a risk by trying out the unproven ideas.

- **Share credit:** Sharing credit is authentic because other members of the team usually have contributed to the success of a project. To the strong team player, getting group task accomplished is more important than receiving individual recognition.
- **Recognize the interests and achievements of others:** A fundamental tactic for establishing yourself as a solid team player is to recognize the interests and achievements of others. Recognizing the achievements of others can be done by complimenting their tangible accomplishments.
- **Listen actively and share information:** Skilled team player listens actively both inside and outside of meetings. As described previously, an active listener strives to grasp both the facts and feelings behind what is being said. Information sharing helps other team members do their job well and also communicates concern for their welfare.
- **Give and receive criticism:** The strong team player offers constructive criticism when needed, but does so diplomatically. A high-performance team demands sincere and tactful criticism among members. In addition to criticizing others in a helpful manner, the strong team player benefits from criticism directed toward him or her. The willingness to accept constructive criticism is often referred to as self-awareness. The self-aware team player insightfully processes personal feedback to improve effectiveness.
- **Don’t rain on another team member’s parade:** Pointing out the flaws in another person’s accomplishments, or drawing attention to your own achievements when somebody else is receiving credit creates disharmony within the group.

Resolving conflicts

Although harmony and collaboration are an important goal of groups and teams, some disagreement and dispute is inevitable. Conflict is the simultaneous arousal of two or more incompatible motives. It is often accompanied by tension and frustration. Whenever two or more people in the group compete for the same resource, conflict occurs. Conflict can also be considered a hostile or antagonistic relationship between two people. Here we look at three aspects of conflict particularly relevant to team leaders of small groups: cognitive versus affective conflict, consequences of conflict, and methods of conflict resolution.

Cognitive and affective conflict

Some conflicts within the group deal mostly with disagreements over how work should be done. These are referred to as task-oriented or *cognitive conflicts*, because they deal mostly with the intellect rather than emotions. Other conflicts within the group are more people-oriented. They occur because people have personality clashes, are rude to each other, or simply view many problems and situations from a different frame of reference. *Affective conflict* focuses on personalized, individually oriented issues and it relates to subjective issues that are dealt with emotionally rather than intellectually. Cognitive conflict is functional because it requires teams to engage in activities that foster team effectiveness. In contrast, affective conflict undermines group effectiveness by blocking constructive activities and processes. The differences between cognitive and affective conflict are found in the executive suite as well as in lower-ranking organizational units. The paradox is that conflict may improve decisions but it may hurt consensus and interpersonal relationships.

Consequences of conflict

Conflict has both positive and negative consequences. The right amount of conflict may enhance job performance, but too much or too little conflict lowers performance. Positive consequences of conflict:

Increased creativity

Talents and abilities surface in response to conflict. People become inventive when they are placed in intense competition with others.

Increased effort

Constructive amounts of conflict spur people to new heights of performance. People become so motivated to win the conflict that they may surprise themselves and their superiors with their work output.

Increased diagnostic information

Conflict provides valuable information about problem areas in the department or organization. Solving conflict lead to the prevention of similar problems.

Increased group cohesion

When one group is in conflict with another, group members may become more cohesive. They perceive themselves to be facing a common enemy.

Negative consequences of conflict

Poor physical and mental health

Intense conflict is a source of stress. A person under prolonged and intense conflict may suffer stress-related disorders.

Wasted resources

Employees and groups in conflict frequently waste time, money, and other resources while battling together. For example, executive taking personal dislike to his managers therefore ignores his cost saving recommendations.

Sidetracked goals

Parties involved may neglect the pursuit of important goals. Instead, they are intent on winning conflicts.

Heightened self-interest

Conflict within groups results in demonstrations of self-interest at the expense of the group and the whole organization. Individuals or groups place their personal interests over those of the rest of the firm or customers.

A leader who learns to manage conflict effectively can increase his or her productivity. In addition, being able to resolve conflict enhances one's stature as a leader. Employees expect their boss to be able to resolve conflicts. Here are the five basic styles or methods of resolving conflict: forcing, accommodation, sharing, collaboration, avoiding. An effective manager will choose the best approach for the situation.

Forcing

The forcing, or competitive, style is based on the desire to win one's own concerns at the expense of the other party, or to dominate. A person with a forcing style is likely to engage in win-lose power struggles, resulting in poor teamwork.

Accommodation

The accommodative style favors appeasement, or satisfying the other's concerns without taking care of one's own. People with this orientation may be generous or self-sacrificing just to maintain a relationship. The intent of such accommodation might also be to retain the customer's loyalty.

Sharing

The sharing style is midway between domination and appeasement. Sharers prefer moderate but incomplete satisfaction for both parties. The result is compromise. Within the work group, sharing might take the form of each team member receiving the same percentage salary increase rather than haggle over dividing the pool of money available for increases.

Collaboration

In contrast to the sharing style, collaboration reflects an interest in fully satisfying the desire of both parties. It is based on an underlying win-win philosophy, the belief that after conflict has been resolved both sides should gain something of value. A conflict-resolution technique built into the collaboration style is confrontation and problem solving. Its purpose is to identify the real problem and then arrive at a solution that genuinely solves it. First the parties are brought together and the real problem is confronted. Another collaborative approach involves asking what action can break an impasse.

Avoiding

The avoider combines uncooperativeness and unassertiveness. The manager is indifferent to the concerns of either party. He or she may actually be withdrawing from conflict or relying upon fate. The avoiding style is sometimes used by a manager who stays out of a conflict between team members. The members are left to resolve their own differences.

2.6 Customer satisfaction

2.6.1 Quality management

Although the term quality has an important meaning to everyone, it lacks a universally acceptable definition. The definition developed by the American Society for Quality Control is informative and useful: “Quality is the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs”. Because need satisfaction is an individual matter, what constitutes quality for a specific product or service will vary among people. Quality has been defined in the following major ways (Reeves, Bednar 1994):

- Conformance to expectations
- Conformance to requirements
- Loss avoidance
- Meeting and/or exceeding customers’ expectations
- Excellence and value

In general, if a product or service does what it is supposed to do, it is said to be of high quality. If the product or service fails in its mission, it is said to be of low quality. The requirements can be objective or subjective. Given the many nuances to the meaning of quality, it is recommended to be cautious when instructing others to achieve high-quality results. Make sure that all sides have a similar perception on quality.

A major strategy for achieving high quality is total quality management (TQM), a management system for improving performance throughout a firm by maximizing customer satisfaction, making continuous improvements, and relying heavily on employee involvement.

To develop a thorough understanding of scope and intent of quality management, the following definition is proposed (Carter 1993): “A system of management that involves all people in an organization delivering products or services that meet or exceed customer requirements. It is a preventive, proactive approach that reflects strategic leadership, common sense, to problem solving and decision making, employee involvement and empowerment, sound management practice, treating internal and external customers as drivers of the business”. Proponents of TQM tend to consider a wide range of good management practices as part of it. This section approaches TQM by dividing its principles and practices into two categories: those that apply to attitudes and managing people and those that primarily relate to work processes and technology.

Dealing with attitudes and people

A system of TQM directs the effort of an entire firm toward higher customer satisfaction, continuous improvement, and employee involvement. Many quality management principles are, therefore, expressed in terms of changing individuals’ attitudes and the organization culture. It has been suggested that TQM is 90% attitude, specifically toward customers. Such profound attitude change results in a culture change.

Starts with vision and values

A helpful way to launch a quality management program is to establish a lofty image of the future, called a vision. The purpose of vision is to point employees toward high-quality achievements and excite them about quality. Values enter the picture because they are the beliefs that support the vision. Relevant values for quality management would be to place great importance on quality and take good care of customers.

Obtain top-level commitment

To achieve quality management, executive-level managers must give top priority to quality. They must allocate resources to prevent, as well as to repair quality problems. Quality must be included in the organizational strategy because the strategy supports the vision. Top management must have the desire to transform the company into the best in the business. Quality management is looked upon as a long range strategy, rather than a tool for obtaining quick improvements. Each organizational unit and individual must be responsible for quality. Workers throughout the firm must perceive the quest for quality as directive and commitment. High-level managers must make frequent references to quality and reward quality performance.

Maintain customer sensitivity throughout the organization

The essence of quality is to satisfy the needs of internal and external customers. An *internal customer* is someone in the firm who uses the output of another or interacts with someone else for work purposes. An *external customer* is a person outside the firm who pays for its goods or services. Workers throughout the firm must get the message that the true purpose of their jobs is to satisfy customer requirements.

Communicate widely about quality

Companies regularly send messages about quality over e-mail. In addition to print and electronic messages, top-level managers conduct face-to-face meetings with employees to share quality victories and future quality objectives.

Make continuous improvement a way of life

Just as the team must focus on continuous improvement, so must the individual employee. An employee who is committed to the TQM culture searches daily for ways of improving his or her work process and output. This approach embodies the spirit of Kaizen, a philosophy of continuing gradual improvement in one's personal and work life. With a series of minor changes, including inviting more people to the brainstorming sessions and using simple creativity tools, creative output improved substantially.

Empower and involve employees

To achieve total effect of quality management, managers must empower employees to fix and prevent problems. Equally important, workers have to accept the authority and become involved in the improvement process. Empowerment is valuable because it may release creative energy.

Listen to employees

A successful quality improvement effort creates an atmosphere in which the manager listens to employees. Walking around is therefore standard managerial practice in a quality-management. Managers should listen for suggestions about even minor aspects of quality.

Emphasize the human side of quality

Statistical and decision-making techniques contribute heavily to quality improvement. Yet the real thrust of quality management is for all employees to have positive attitudes toward quality. They must pay attention to detail, take pride in their work, and believe that high quality improves profits.

Reward high quality performance

The best quality results are likely to be achieved when employees receive financial as well as nonfinancial rewards for achieving quality.

Dealing with work process and technology

Quality management began in manufacturing. As a result, many quality management ideas are aimed at improving work processes and making effective use of technology. Many of the quality techniques developed for manufacturing are also applied to service firms such as banks, retailers, universities and hospitals. The later discussion of customer satisfaction can be regarded as an approach to improving the quality of service. Quality in the service section is particularly important because 80% of the U.S. work force is involved in service sector that contributes 80% to the U.S. GDP. The next section describes major principles of quality management dealing with work processes and technology.

Implement a formal quality program to support the quality process

Sponsoring a quality program helps establish a quality culture and supports the process of quality management. Quality program is about substance, trying to have people learn new tools, work in teams, be more competitive and successful.

Engage in benchmarking

A basic total quality principle is to compare the firm's performance to an industry standard or world-class performance. Benchmarking is comparing a firm's quality performance to that achieved by competing firms, or some aspect of performance from a firm in another field. The firm in the other field might have achieved outstanding success in some aspect of the business that is relevant or even different.

Select high quality suppliers and train them properly

A company needs high-quality components and materials to produce high quality products. Careful selection of suppliers is, therefore, a major aspect of ensuring reliable and defect-free production. Once the right suppliers are selected, they must be clearly informed about the company's quality requirements.

Ensure the excellence of incoming materials and supplies

To achieve quality management, a work group must accept only high quality raw materials and supplies. The premise is that a high-quality product cannot be made with low-quality materials. Many companies have vendor certification programs to ensure excellent supplies and materials.

Decrease cycle time

An important goal of quality management is a short cycle time, the interval between the ordering and delivery of a product or service. Receiving goods promptly contributes to a customer's perception of quality. In addition, working toward shorter and shorter cycle times also can expose areas of weakness that adversely affect quality.

Pay painstaking attention to detail

The quality of goods and services is greatly enhanced if everybody pays careful attention to detail. Paying attention to detail enables a worker to satisfy a major tenet of total quality management: Do work right the first time. The importance of attention to detail highlights the role personality factors play in contributing to quality. Workers who rank high on the personality trait of conscientiousness are much more likely to avoid mistakes.

Institute stringent work standards for every individual

For a quality management program to take hold, individuals have to fully accept such standards. Another stringent performance standard used in some TQM programs is zero defects, the absence of any detectable quality flaws in a product or service. Another viewpoint is that error-free work is virtually unattainable. A human problem associated with virtually unattainable goals such as zero defects is that it results in needless frustration and stress for employees.

Calculate the return on equity

For some aspects of goods and services, achieving the highest quality is a poor investment. Many managers are carefully calculating whether quality management is a good investment. Properly implemented, the answer is quite frequently yes.

Train individuals in quality

As part of quality management, almost every employee receives quality-related training. Each individual must learn the basic concepts of TQM, including problem-solving, decision-making, and interpersonal skills.

Problems associated with quality management systems

Any mention of the limitations of total quality management systems and programs does not mean that quality is unimportant. Instead, the argument is that there are less time-consuming and cumbersome ways of achieving quality than through quality management. A problem in measuring the contribution of total quality systems and programs is that TQM has lost its focus. Many companies have found that some quality standards are arbitrary and not cost-effective. Despite how impressive some quality techniques may appear, they do not always produce outstanding quality performance. Many total quality programs fail because the programs attempt to make hundreds of changes instead of focusing on a small number of decisive changes. Among shortcomings of quality management programs, quality manager develops its own cumbersome bureaucracy in the form of reams of paper, hundreds of electronic messages, numerous committee meetings, and endless surveys. Add to the list dozens of techniques that must be followed carefully, and a growing staff of people to supervise quality. Quality management programs work best when managers follow the principles and practices described so far. Although commitment of top-level managers is essential, they cannot become so obsessed with quality management that they neglect other aspects of management.

2.6.2 Quality management techniques

So far the attitudes that contribute to enhanced quality have been described. Technical methods form another important part of assuring quality. These specialized techniques originated in manufacturing but are also used to improve the quality of services. Among the techniques are the following.

Quality control

Long before total quality management, manufacturers attempted to ensure product quality. A standard technique to ensure quality is quality control determining the extent to which goods or services match a specified quality standard. There are two primary ways to control quality. One way is to inspect all units of output (100% inspection). Another is to inspect samples of the total output, such as checking every 200th can of tuna fish produced. Similarly, a random sample can be used instead of inspecting predetermined units of the product.

100% inspection

Under the 100% inspection technique, all units are inspected. Those that do not meet quality standards are rejected. A 100% inspection is impossible when the process of inspection ruins the product. After a can of tuna is inspected, for instance, it cannot be sold. In contrast, visually inspecting a hair dryer does no harm to the unit. A 100% inspection technique is necessary when the cost of poor quality is enormous. The cost could be measured in terms of money, human lives, or human suffering. Suffering or loss of life would result if there were defects in products such as automobile brakes, airplane controls, and heart pacemakers. Inspecting every unit is quite expensive when humans perform the inspection. To decrease inspection costs, robots are now used for some forms of inspection. An even more recent development in quality control is machine-vision systems. Such systems have a sensing device that can, for example, check the size of holes in parts going along a conveyor belt. Even a 100% inspection technique will not catch every defective product.

Inspection by sampling

When a sample is used for quality control, managers must decide how many units to inspect and what to inspect. One strategy is acceptance inspection, or checking completed products. The completed products may be finished goods for sale to consumers or they may be intermediate goods that will be used in further production. Another strategy is in-process inspection, in which products are checked during production. If flaws are detected, changes can be made before the product is assembled. Tearing down finished products is expensive and may result in considerable scrap. It is much better to find pieces of fish tail in a batch of tuna meat before it is canned than afterward. Sampling is used to evaluate the quality of services as well as goods. Another strategy for quality control combines acceptance and in-process inspection. Goods and services of the highest quality generally receive both types of inspection. In a sampling procedure, a small number of items (the sample) are drawn from the lot, or the total number of units. Characteristics of the lot are inferred from those of the sample. In practice, sampling is much more complicated than the example just given. The inspector would have to pick a representative sample and specify the probability of making errors in prediction. Using a sampling technique is less expensive and time consuming than inspecting every unit. The technique also has disadvantages. In any sampling technique, some defective parts will go undetected, so there is the risk that consumers will purchase low-quality products. There is, therefore, increased probability that customer goodwill may decline. Any method of quality control requires managers to determine an acceptable number of defects or poor-quality products.

Statistical process control

Early attempts to improve the quality of products focused primarily on the inspection of outgoing products. In effect, producers tried to inspect quality into their products. The production process itself and work in process went unmonitored. As thinking about quality became more advanced, many firms shifted the focus of their quality-improvement efforts to in-process inspection. Process management is the monitoring, controlling, and improving of a production process for the purpose of improving the quality of the output of the process. W. Edwards Deming developed a refinement of in-process inspection, referred to as statistical process control. This method uses graphical displays for analyzing deviations in production processes during manufacturing rather than after the completion of a part or product. Similar to other methods of quality control, the goal of statistical process control is to reduce variation in the finished product. In many cases, variation is inherent in the process; it cannot be predicted or easily eliminated. The causes of such variation are called common causes, and only improved process technology can eliminate them. In other cases, variation is due to assignable causes, such as worn tools or worker error. Assignable causes can be corrected, so even a superior production process needs a method for controlling quality. A process whose output variance is due only to common causes is said to be in a state of statistical control. When assignable causes are present, the process is out of control and needs to be corrected. Statistical process control gauges the effectiveness of the manufacturing process by carefully monitoring changes in whatever is being produced. Potential problems are detected before they result in poor-quality products. Experts can diagnose the reasons for the deviation and modify the process as necessary.

Graph techniques

Pareto diagram

To gain continuous improvement in quality, problems must be identified and corrected. One problem-identification technique involves using a Pareto diagram, a bar graph that ranks types of output variations by frequency of occurrence. Managers and workers use Pareto diagrams to identify the most important problems or causes of problems that affect output quality. Identification of the vital few allows management or quality circle teams to focus on the major cause or causes of a quality problem. According to the Pareto principle, generally 20% or fewer of the causes contribute to 80% or more of the effects.

Cause and effect analysis

This is another graphical technique for analyzing the factors that contribute to a quality problem. The diagram used in cause-and-effect analysis is known as an *Ishikawa diagram* or a *fishbone diagram*. According to cause-and-effect analysis, any work process can be divided into major categories or causes. The main line of the chart represents the process, and the first branches are the immediate causes of the problem shown. Four causes often used are people, machines and equipment, methods, and materials. Cause-and-effect diagrams are often developed through brainstorming, and the general causes are usually subdivided further into specific contributors to the causes. For example, the people category might be divided into employee selection, education, training, motivation, and job satisfaction. Digging further, a quality defect might be traced to low job satisfaction of employees who are disgruntled about physical working conditions. The job of the quality-improvement team is to investigate the possibility. Once the team identifies the quality problem and its causes, they can develop possible solutions. Each suggested solution is analyzed in terms of costs, time, and barriers to implementation, effects on workers and managers, and expected results. After a solution is chosen, an implementation plan must be determined.

ISO 9000 quality standards

Another approach to achieving high quality is to adhere to an internationally recognized standard. ISO 9000 is a series of management and quality-assurance standards developed for firms competing in international markets. The standards were originally developed by the International Standards Organization for manufacturing firms, but are now also used by service firms. Although referred to as ISO 9000, the set of standards is divided into five subsets:

- ISO 9000-general guidelines for use of the set of standards
- ISO 9001-model for assuring quality in design, development, production, installation, and service of the product
- ISO 9002-complementary model for production and installation

- ISO 9003-specifications for final inspection and testing
- ISO 9004-principal concepts and a guide for overall quality management

To obtain ISO accreditation, the organization must follow 20 steps covering tasks such as identifying business processes and writing a quality manual. Writing procedures and work instructions are also required. Another development in these international standards is QS-9000. QS-9000 is based on ISO 9001 but contains additional requirements that are of particular interest to the automotive industry. QS-9000 applies to suppliers of production materials, production and service parts, heat treating, painting and plating, and other finishing services. Suppliers of these kinds of parts and services who want to do business with the Big Three auto makers have to be certified in QS-9000.

The Deming principles

Much of the quality movement, including specialized techniques for quality improvement, has been influenced by W. Edwards Deming. He formulated 14 steps that managers should take to lead firms toward a quality goal. Some top-level managers post these steps in their offices to remind them of the importance of managing for quality.

2.6.3 Customer satisfaction

Satisfying customer needs is the major strategy of quality management. Achieving customer satisfaction is also part of the strategy of many successful firms that do not have a total quality program. The ultimate goal in achieving customer satisfaction is to achieve zero defections that is, to keep every customer the company can profitably serve. Notice that zero defections is a takeoff on the term zero defects, but it does not mean the same thing. Zero defection is an important goal to work toward because customer retention has a major impact on profits. Companies can almost double profits by retaining only 5% more of their customers (Reichheld 1990). A related consideration is that most customer dissatisfaction stems from the areas of service and the business relationship. Nevertheless, most of the quality-improvement staffing resources and energy are directed toward the product. This section describes key principles and techniques for building constructive customer relationships and achieving high levels of customer satisfaction or total customer satisfaction. The principles and techniques for achieving customer satisfaction can be categorized according to whether they require managerial input or whether frontline customer-service workers alone can implement them. Another approach to customer satisfaction is through mass customization. A major justification for satisfying customers is to obtain their loyalty. Managers must assume responsibility for implementing many of these principles, techniques, and methods that lead toward high customer satisfaction:

Concentrate your efforts on creating value for customers

By creating value for customers, or giving them products or services that are useful to them, they will become loyal. Customer retention and outstanding service are both part of the quality strategy.

Establish customer-satisfaction goals

Managers must decide how much help to give to customers. They need to raise questions such as: Will employees attempt to satisfy every customer within 10 minutes of his or her request? Is the company striving to provide the finest customer service in its field? The answers will dictate how much effort and the type of effort the manager and the team members must put into pleasing customers.

Give decision-making authority to customer-service workers

Customer service is enhanced when frontline workers are empowered to deal with customer problems without seeking several levels of approval. Such authority includes the ability to grant refunds, exchanges, concessions, and preferred delivery dates.

Thoroughly screen applicants for customer-service positions

Customers who switch to a competitor do so because they perceive indifference on the part of a customer-service employee. Customer service employees should therefore be of high caliber. Companies noted for their good service seek candidates who have good communication skills, project a professional image, display empathy, and appear happy. Screening for conscientiousness and extroversion is also important. Attracting good customer-service and customer-contact workers will often lead to imaginative solutions to customer problems.

Hire full-time, permanent store associates

To reduce costs, a growing number of retailers hire many part-time or temporary store associates. These workers frequently lack the commitment and product knowledge of full-time, permanent store or sales associates. Also, the representative must be motivated to provide superior service. Such service requires a degree of company loyalty not typically found in a temporary worker.

Establish a favorable work climate for customer service

An indirect but effective approach to achieving customer perceptions of high-quality service is to provide an atmosphere that supports customer service. For example, when employees perceive that they are rewarded for delivering quality service, their organization's service climate will be stronger. Also, if employees believe that customer service is important to management the climate for service will be enhanced. Important way to establish a climate favorable to customer service is to train customer-contact workers in areas such as problem solving, listening, communication, and stress management. Training in product knowledge is also essential because many instances of customer dissatisfaction stem from a sales associate's insufficient knowledge of the merchandise.

Solicit customer feedback regularly

Business firms that listen to their customers can make adjustments to improve service quality from the customer's viewpoint that will often enhance customer retention. Many top-level managers regularly visit company facilities that serve customers, such as stores, restaurants, and hotels. For example, market research indicated that consumers wanted low-fat, nutritious fast foods such as McDonald's McLean, KFC's skinless fried chicken, and Pizza Hut's low-calories pizza. Yet all products failed to meet expectations. In reality, when it comes to diet, there is a big disparity between what people intend to eat (healthy foods) and what they actually eat (fat, tasty foods). One way of learning what consumers really do is to observe them directly or through video cameras. A caution is that the use of video cameras for this purpose is considered unethical by many people.

Communicate the fact that everyone contributes to the customer's perception of service

Customers evaluate the quality of service on the basis of their total perception of how they are treated by all people with whom they interact. For example, shabby treatment by a parking lot attendant can detract from high quality service received within the store.

Find ways to buy from your customer

A powerful tactic for building customer relationships is to buy as many products or services as possible from the customer. Reciprocity is one of the oldest principles in business. The tactic of buying from customers generally applies best to industrial customers. A retail store manager, however, might be able to buy from customers who are themselves store owners or store managers. An example is that a good customer of a clothing store might be a car dealer. When it came time to purchase a vehicle, the clothing store owner might first visit the car dealer who is his or her customer. An effective procedure is to ask customers for a full listing of the products and services their firms offer. Key managers in the company should have access to this list so they might find a way to make a purchase.

Develop efficient systems of order fulfillment

A potential barrier to excellent customer service is a mediocre order-fulfillment process. No matter how courteous and friendly the sales representative, a customer will be upset when orders are filled slowly or inaccurately. Many firms use the Internet to fill orders, which can enhance customer service if the system is user friendly and does not crash frequently in the middle of an order.

Principles and techniques for customer service workers

Customer-contact workers, especially sales associates, play a major role in moving an organization toward total customer satisfaction. The list that follows describes a number of techniques that customer-service workers can use:

Contribute to establishing customer bonds

A major way of satisfying customers and retaining them is to establish an emotional bond between the customer and a producer or supplier. As a result of the emotional bond the customer will buy repeatedly or exclusively from the supplier, and recommend that supplier to others. Furthermore, the person who forms an emotional bond with the product, service, or provider will resist sales appeals from competitors. Bonding takes place to the extent that the customer-contact workers provide outstanding service, and that the customer trusts the supplier or producer. Building a warm personal relationship with the customer also helps because people tend to purchase from salespersons they like unless there is a dramatic difference in price for a competitive product or service. The other techniques described here, as well as in the previous section, contribute to bonding.

Understand customer needs

The most basic principle of selling is to identify and satisfy customer needs. One challenge in applying the principle is that many customers may not be able to express their needs clearly. To help identify customer needs, one may have to probe for information.

Put customer needs first

After customer needs have been identified, the focus must be on satisfying them rather than oneself or the firm.

Respond positively to moments of truth

An effective customer-contact worker performs well during situations in which a customer comes in contact with the company and forms an impression of its service. Such situations are referred to as moments of truth. If the customer experiences satisfaction or delight during a moment of truth, the customer is likely to return. A person who is frustrated during a moment of truth will often not be a repeat customer.

Show care and concern, and be helpful with complaints

During contacts with customers, show concern for their welfare. Another key aspect of showing care and concern is to be helpful rather than defensive when a customer complains. Listen carefully and concentrate on being helpful. The upset customer cares primarily about having the problem resolved and does not care whether you are at fault. Complaints that are taken care of quickly and satisfactorily will often create a more positive impression than mistake-free service.

Communicate a positive attitude

A positive attitude is conveyed by such attributes as pleasing appearance, friendly gestures, a warm voice tone, and good telephone communication skills.

Smile at every customer

Smiling is a natural relationship builder and can help build bonds with customers. Sales associates should smile several times during each customer contact, even if the customer is angry with the product or service. Few retail or industrial firms can achieve all of the above principles and techniques for total customer satisfaction.

An important new trend in customer satisfaction is to give customers the opportunity to have a personal variation of a mass-produced product. Examples include ordering a new car with a custom-designed package of accessories. Mass customization is a hybrid technique whereby a production line spins out hundreds of variations on a single product. Achieving mass customization requires a highly flexible manufacturing system that can handle a variety of options. The idea is to retain most of the benefits of mass production while at the same time responding to the unique preferences of individual customers. Mass customization is a juggling act between attempting to please every customer and still manufacturing efficiently. Here are gathered advices from mass customization experts for companies that want to move toward mass customization:

Evaluate the products in customers' terms

Successful mass customizers measure success in terms of how well a product serves customers. By adapting to unique customer needs, sales are likely to increase. For example, some people are eager to buy multivitamins tailored to their needs.

Offer customers the appropriate number of choices

It is important not to over-empower customers, to let them order anything they want, because the cost can be prohibitive. The manufacturer must find a product range that satisfies customers and still let company make money.

Create a modular production system

Most successful mass customizers build their products in discrete modules. With each step in production organized into a separate module, the steps can be rearranged like Lego bricks.

Provide fingertip access to all information

For mass customization to succeed, all workers in the company should be able to access relevant information about customer orders and the individual steps of production.

Collect information about customer preferences directly

When customers place their customized orders, there is an opportunity to study customer preferences directly. Production can be made even more efficient when patterns emerge of what customers want and don't want.

Make it difficult for customers to go elsewhere

Mass customization can create a customer relationship that is habit-forming to consumers because they get exactly what they want. Mass customization improves customer service because many customers get the exact features they want. Nevertheless, some consumers believe that the highest level of customer service is to be able to take a product off the shelf and bring it home immediately. Also, with mass-produced products you can see the final version at the time of purchase.

Part B

International Strategy

Chapter - III

International Economics & Business Environment

3.1 Overview of world economy

3.1.1 History of economic development

Formerly, that is the period after the World War II the world has been of bipolar nature. That means, the two different, contradict to each other systems of idea, political orientation, and socio-economic preference exist. Those two systems were called the West and the East. The West embraced capitalist countries led by United States. The East part consisted of Eastern European socialist states, some countries of Asia and led by then the Soviet Union.

After 1991, the moment when Soviet Union collapsed into Russian Federation and 14 other independent republic states (CIS – *Common Independent States*), most of the Eastern countries has been transformed into capitalist system with market economy orientation and prepared to join the EU (*European Union*). The process of enlargement of the EU to the former socialist countries is still ongoing. The world economy is oriented and unified by capitalism being extended to these post-socialist countries (countries of former Soviet Union, Eastern Europe, China, Vietnam, Cuba, Laos and third world countries such as the Africa, South Asia and South America..., becomes increasingly complex and sophisticated.

The capitalism involves sharing resources on a global scale in order to use them effectively and optimally; the division of labor, coordination of trade, investment, production and technology transfer activities in a rational manner throughout the world economy to increase the productivity and competitiveness of the actors in the global value chain. The world economy, or the so-called global economy, is considered to be a whole body of different stakeholders involved, interconnected with each other on a tight and strongly sticking together measures.

Thus, the world economy is a whole group of subjects that are the economies of the economic blocks and of all the nations on earth, such as the EU, ASEAN, BRICS, ECOWAS (blocks); China, the United States, and

Japan (countries). Those economic subjects are linked and interconnected through the international division of labor and their international relations. Among these international relations we divide into:

- Economic relations-trade (import-export), finance (securities, banking, insurance), labor, production and services, investment, technology transfer.
- Non-economic relations-diplomacy, charity, relief, rescue, natural disaster prevention, cooperation for peace, international security and environmental protection.

As mentioned above, the subjects of the international economy are: the economic blocks (EU, ASEAN, BRICS, ECOWAS,...); national economies (USA, Japan, China,...). In addition, international institutions and forums (IMF, WB, WTO, ADB, AIIB, APEC, ASEM,...), multinational and transnational corporations (Apple, Samsung, Microsoft), other large, medium and small domestic enterprises play a significant role in the diversification of actors involved in the stage of international economy.

We can classify the world's economies according to different criteria, including those related to the socio-economic system and socio-economic development. In terms of the socio-economic system, previously, in the world we have the economies of:

Capitalism-with the guiding principle that business of business is business, focusing on research and development to enhance the innovation and technology change to increase production capacity and competitiveness of all actors in the market economy (North America and Western Europe);

Socialist bloc-with the principle that all is for the sake of society, with the spirit of equality and charity among the classes, is also aimed at increasing production and productivity, but considers business and other commercial activities as forms of labor exploitation, especially of the working class, the laborers (Soviet Union, China and Eastern Europe);

The mixture-countries not belonging to the above two blocks, not rigid in philosophy as well as key principles, and tend to change and customize flexibly to the development of socio-economic situation (Nordic countries);

The third world-is the group of the slowest or least developed countries in the world, the dark spots in the world economy that need to be lit (Central American, South Asian and most African countries).

Classifying the world economies according to criteria of level of economic development, social development and human development (according to HDI-Human Development Index), we have economies of the countries:

Highly developed-there are about 30 countries with GDP per capita of over 25,000 USD a year in North America, Western Europe, in Middle East, Asia Pacific and Oceania: United States, Germany, Japan, Canada, Australia, New Zealand, United Kingdom, France, Italy, Netherlands, Singapore, Spain, Portugal, Luxembourg, Sweden, Finland, Denmark, Norway, Quatar, Brunei, Israel, United Arab Emirates, Austria, Ireland, Israel.

Developed-Newly Industrialized Countries (NICs) of South East Asia with GDP per capita of over 7,000 USD a year, such as: The BRICS (4 countries in the block, with the exception of India with a lower GDP per capita than 5,000 USD), Malaysia, Thailand, Korea, Taiwan (four Asian rising tigers), some Eastern European countries (10 countries joined the EU in 2004),

Underdeveloped-Vietnam, Philippines, Laos, Cambodia, Myanmar and most of the black continent of Africa, South Asia countries such as India, Bangladesh, Pakistan.

The history of the world economy, after the Renaissance epoch, has gone through the industrial revolutions with the great inventions of humanity, which are essential motivations, breakthroughs, and enhancements to boost the production effectiveness and drive the development of the world's economies:

The First Industrial Revolution (1820-1870)-took place in the field of transportation with steam engine. This area is very important because where there are convenient and diverse transport systems, there is trade boom and economic growth. This revolution was only a breakthrough in the areas of road, rail and water transport, the development of aviation transport had to wait for the Third Industrial Revolution.

The Second Industrial Revolution (1870-1913)-related to traditional industries such as agriculture, heavy industry, mechanics, chemicals, petroleum, coal, gas, metallurgy started in Western developed countries. They support, follow and reinforce the fruits of the First Industrial Revolution.

The Third Industrial Revolution (1913-1950)-related to modern and new technologies such as energy, aviation, space, biotechnology, military, nuclear, information technology and telecommunications. They were the causes of the World War I and II, with the most devastating destruction to mankind ever.

The 4th Industrial Revolution (since 1950 until now) – belongs to the information technology as an undisputed motive leading to and continuously promoting the process of globalization and integration of the world economy today.

Table 18: Four Industrial revolutions

Industrial revolution	Time	Content
1.0	1820-1870	Transportation. Steam engine (also called internal combustion engine).
2.0	1870-1913	Traditional industries (agriculture, heavy industry, mechanics, chemicals, mining, metallurgy) in developed countries. Electric engine.
3.0	1913-1950	New technologies such as energy, aviation, space, biotechnology, military technology, information technology and communications. Computerization, automation.
4.0	1950-now	Integrate technologies together based on information and communication technologies. • Social Network • Artificial Intelligence, Machine Learning (AI, ML) • Internet of Things (IoT) Big Data • 3D Printer • Virtual Reality (VR) • Cloud computing, cognitive computing • Driveless cars, Drones, • Smart robots, smart factory and smart city. • E-Learning, Telemedicine

Source: Own development

The world economy is currently on the upswing, with major development drivers in the emerging markets, in particular the BRICS countries representing each continent. There are some structural problems as follows:

- GDP growth-is uneven across the globe, with an average of around 3.5% a year, the 2008 crisis has slowed this growth.
- International trade-the growth rate of international trade (total import and export turnover of countries in the world) is two to three times higher than global GDP growth. This growth is not evenly distributed in countries and regions around the world.
- International investment-the growth of international investment is not less than the growth of international trade. International capital

flows are often poured into emerging markets. To take advantage of these capital flows in the context of economic development and national renewal, these countries need to be more politic, transparent, flexible and prudent at the same time in terms of selective investment.

- Financial markets-a key and effective channel to raise international trade and investment for developed countries. Emerging countries have yet to take advantage of this financial market and have not yet taken effective measures to develop it.
- Environmental and social issues-economic development is related to the social and environmental implications that need to be coordinated between national and intergovernmental agencies.
- Competition and cooperation-joint ventures and links between businesses and between nations are an irresistible trend to minimize the intensity of competition and improve the quality of competition in the global economy.
- New Economic Center-the focus of the global economy tends to shift from North Atlantic region to Asia Pacific, where the economic growth is still high and the population boom is continuing.

3.1.2 Future of the world economy

The future of the world economy is related to the following development trends:

- The explosion of scientific and technological revolution-serving as main driving force of the socio-economic development, civilization and progress of all humanity.
- World economic integration-this process can be seen from both a static state and as a continuous process.
- Transition from frontal competition to co-operation-the mainstream mode of all economic relations both at the micro level, level of enterprises and the macro level, level of national economies and the world economy.
- The role of Asia Pacific rim, including Japan, Korea, China, ASEAN countries, Australia, New Zealand-the economic region of 3 billions people, accounting for 60% of global GDP, shifting the centre of power of the world economy from the West to the East.
- Restructure industry from a focus on agro-industrial production

(down to 20% and less) to business, trade and service mostly based on information (up to 80% and more).

- International division of labor-between the two different extremes of Differentiation (mostly for FMCG industry) and Standardization (for example: fast foof industry such as KFC, McDonalds).
- New production methods-with both high flexibility and green orientation (environmentally friendly and beneficial for consumers and citizens); automatic (serial and mass production using high technology).
- New forms of materials and energy-removing high-polluting resources such as coal, oil and nuclear. Instead, diversified sources of clean energy (electricity, wind, waves, sun) will be developed and put into widespread use.
- New technology-environmentally friendly by using the above resources and source of energy.

3.1.3 Global issues of the world economy

Indispensability of global issues

Global issues relate to the interests and survival of nations and citizens around the world. These are issues that must be addressed by all mankind, organizations, individuals, small businesses and governments. Why? Here are some of their features:

- Dependent interactions-the economic and financial unequal relationships of the entities and subjects of the global economy will cause potential global problems to affect all of them. They usually follow the chain effect rather than preserving its locality.
- The world is getting smaller as science and technology grows-the geographic and cultural gap between regions and countries is narrowed, but the economic gap (between the rich and the poor), the social, environmental and human development (expressed by HDI-Human Development Index) seems to be expanding.
- Identify and be aware of global issues-and find ways to deal with them globally, every nation, community, and individual must be active, contributing proportionally certain part to solve the global issues according to motto "accumulate smalls through long time to become big one time".

Overview of global issues

The following are some of the global issues that humanity is facing and will face in the long run. These are:

- Regarding development resources-global population explosion, estimated in 2050 to reach 10 billion people. Meanwhile, the real resources are limited and the area for farming and livestock is reduced. The energy and natural resources of the world are becoming increasingly exhausted.
- Regarding ecological environment-environmental pollution is at an alarming level, especially in developing countries and growing at high speed, requiring specific urgent solutions. The greenhouse effect is heating up the earth, averaging 0.5 degree Celsius every 10 years.
- Regarding economic growth and social development-international and public debt, unemployment, inflation, financial crisis, and trade war are the imbalances of growth and economic development. These two concepts are not proportional to one another.
- Regarding the social dimension-the widening gap between the rich and the poor, the "have" and "have not", between developed and underdeveloped countries, between rural and urban areas; the illness and diseases of industrial societies such as cancer, diabetes, cardiovascular, stress due to the lifestyle of modern life; the cultural expansion, for example, of the United States in the world and of the South Korea across Asian continent and the religious expansion of some Islamic countries.
- Regarding peace and international security-the likelihood of a third world war is high; local conflicts (the South China Sea, Ukraine, and North Africa) and extremism (the Islamic state itself) are - intensifying, posing challenges to international peace and security.

The meaning of global issues

All the global issues have their meaning in three following dimensions:

- Global issues reflect the level of development and the interdependence of world economies. As countries and economies grow, they are increasingly interdependent and need to address these global issues together.
- Global issues reflect the multifaceted nature of the world economic development process, including economic benefits (natural

resources, free trade, investment attraction, location in the global value chain) and geo-political benefits (international influence and soft power).

- Global issues require close watch and comprehensive coordination to be addressed urgently among international organizations, state and local governments, national organizations, large and medium - sized enterprises, corporations, global citizens, based on the notion and philosophy of social responsibility in general and corporate social responsibility (CSR) in particular rather than focus on solving problems and to take care of personal selfish interests according to motto business of business is business (BBB).

3.1.4 International and foreign economic relations

The concept of international economic relations

International economic relations are the whole of economic relations between nations, between nations and international economic organizations (multinational corporations, transnational corporations).

Foreign economics studies the economic relations from standpoint of one particular country, so it differs from international economics which studies the whole economic relations between countries, just as foreign trade differs from international trade. Foreign economic relations are concerned only with the economic relations of a particular country with economies, economic blocks of the rest of the world. Just as foreign TV broadcasting channel VTV4 is interested in promoting Vietnam's image (or TVP Info is interested in promoting Poland' socio-political and economic climate) to the world, building and consolidating relationship with major world economies. Whereas international TV broadcasting channels, such as the BBC, CNN, Bloomberg, care and focuse on multidimensional analyses of all issues and trends taking place around in the world without focusing on a particular country.

Contents of international economic relations

In terms of content, international economic relations concern the following areas and issues:

- International trade-import and export of goods and services, products processing, temporary import for re-export, export on the spot.
- International investment-foreign direct investment (FDI), FII (Foreign Direct Investment) or FPI (Foreign Portfolio Investment), trade credits, ODA (Official development Assistance).

- International finance-building and consolidating the international financial market to serve both as a driving force and a lifeline for the development of international trade and investment.

Cooperation in science and technology, including:

- Scientific research-research, innovation and development of modern technologies to improve the efficiency and competitiveness of economies.
- Technology-technology transfer is also considered as a product or service that needs to be commercialized to market to manufacturing and business enterprises in order to improve their efficiency and competitiveness; the efficiency and competitiveness of the world economies and the global economy in general.
- Training, invention, production-training of human resources, inventing scientific and technological innovations for mass application in industrial production.

The nature of international economic relations

The role of large countries such as the United States, China, Japan and India in bilateral and multilateral international economic relations is undisputable. So, smaller countries, wanting to strengthen their role and position in global stage, need to grouped together to form economic blocks as counterweights to the bigger powers. Thus we see the forming and functioning EU (European Union), BRICS (Brazil, Russia, India, China and South Africa), ECOWAS (Economic community of West African States), ASEAN (Association of South East Asian Nations), etc.

3.1.5 World economies-cases

Vietnam needs to develop, diversify and improve the efficiency of its external economic relation, build and consolidate bilateral and multilateral relationships with all nations and territories around the world. Countries now are more or less interdependent by the factors of production inputs and the level of science and technology of each country is uneven. It is therefore necessary to work together to share resources and resonate the strengths of the parties towards building long-term and sustainable relationships. In Vietnam, it is focused on the following issues in its external economic relations:

The dialectical relationship between economics and politics-to build a friendly, and long-lasting economic relationship with friends around the globe, Vietnam needs a political stability first and needs to be developed in all aspects both economically and socially in order to become a trusted investment destination for major economic powers and multinational enterprises around the world.

Openness and integration perspective – Vietnam need an openness and integration for making friends; to learn and improve their socio-economic, scientific and technological levels; to engage in and benefit from the global value chain. In addition, Vietnam needs to limit the negative aspects of this process to develop, succeed and rise further. The following are examples of some successful, less successful and unsuccessful countries in the process of international economic integration so far:

- **Successful countries:** Japan, Korea, China, Taiwan, Singapore, Hong Kong.
- **Less successful countries:** Vietnam, Philippines, Thailand, India, Indonesia, South Africa.
- **Unsuccessful countries:-**Madagascar, Ethiopia, Kenya.
- Promote the strength of national unity-such in the resistance war, so in the market; and make a full use of available advantages (human resources, natural resources) as well as geographical location and cultural diversity.
- Selective multilateralisation-relationships based on the principle of equality, mutual benefit at the state level (normal relationship, comprehensive relationship, strategic relationship) and at the level of enterprise.
- Economic management mechanism-to be in line with the socialist-oriented market economy regime and international commitments. Vietnam should gradually create a dynamic, flexible and open legal environment.
- The position of the Vietnam economy and the possibilities for expanding economic relations can be judged on the following factors:
- The scale of the economy-comparing to other Asian countries, Vietnam, with 95 million people, is still small nation in terms of population and area, but it is larger than Germany, the most populous country in Europe.
- Regarding the economic structure-mostly based on industrialization, handicraft production with small family households engaged using outdated technology.

- Economic innovation-fairly fast but with no significant break-throughs.
- Level of openness and integration-not very highly appreciated, not very much recognized, especially by countries with advanced industries in the world.

Resources and advantages of Vietnam

- In terms of human resources-Vietnam has just a surplus of unskilled labor force and lacks of qualified personnel both the technical staff and management talent. Higher education sector also poses many problems.
- In terms of natural resources-not scarce but not abundant, scattered in all the regions of the country. The East Sea is an endless resource that has not been attached an importance in exploitation.
- The geographic location, climate and landscape-favorable and diverse; geographical diversity and different climate, beautiful natural scenery favorable for the development of tourism.

Necessary conditions for economic development

- Political and macroeconomic stability-political conditions are favorable, and the macroeconomic conditions of the country are quite satisfactory recently.
- Improving the legal system-the legal system reveals many uncertainties, obstacles and obstacles to the effectiveness of the legislative, executive and judiciary.
- Administrative reform-many problems and shortcomings have to be solved, so it is necessary to learn from the leading countries in the region such as Singapore.
- Modernization of socio-economic infrastructure-Efforts are underway, some areas are promising and positive in some localities.
- Build high-quality human resources-just as in the area of administrative reform, it is necessary to work closely with foreigners to learn from their valuable experience.

3.2 International trade

3.2.1 Introduction to international trade

International trade-concept

International trade is the exchange of goods and services between nations, the focal point and the starting point for various international economic relations (from importation and exportation to investment).

International trade-content

In terms of content, international trade can be understood in many different aspects as follows:

- From a global perspective-international trade is a system of short-term economic activities (world trade exchanges).
- From a national perspective-international trade, including foreign trade (import and export), investment, services (outsourcing, labor export and technology transfer) of one country in relation to other countries in the world stage.
- From the point of view of business-management of business activities overseas (international trade exchange or investment projects).

International trade-function

International trade has the following functions for the world economy and national economies:

- Benefit global and national economies in terms of usage value, oriented towards productive and diversified structure of goods and services in the economy.
- Improve the efficiency of national economies in the world economy, such as improving production and labor productivity in developing countries; reducing operation costs and price of goods and services in developed countries.

International trade-characteristics

The following are some of the traits of international trade:

- The growth rate of international exchanges 2-3 times higher than the GDP growth rate of each country or globally, showing the openness of the economy.
- The growth rate of services (software, intellectual property, copyright, trademark, know-how) exceeds the growth rate of merchandise and tangible products.
- Reduce raw materials import together with fined products export – this is the principle rule to maintain competitiveness. National economies, to stay competitive, need to reduce exports of primary commodities (such as iron and steel, raw materials, private fuels) which are less likely to create global added value, and increase the

export of refined commodities (such as smartphones, cars, aircraft, specialized services) that create global added value.

- Tools and methods of competition are increasingly diverse-businesses can compete through a variety of methods and tools as follows: quality, price, design, packaging, service, payment and finally corporate social responsibility (CSR).
- The role of monetary and financial instruments is increasing-these tools play a role in promoting and leveraging the development of business and the economy in terms of trade and investment. Therefore, it is necessary to develop and professionalize the financial market, including the stock and derivative market.
- Economic relations (trade, investment) are increasingly complex, diversified and complementary each other as well as the cooperation in field of science and technology-technology transfer is essential and an important leverage in the national trade and investment development processes.
- The life cycle of products and technologies is increasingly short due to innovation and scientific progress taking place on a larger scale, the speed is faster and stronger as never before.

3.2.2 International trade relations

International trade, like many other relationships that take place between nations, businesses, governments, other stakeholders, must be based on certain principles to ensure the interests and benefits of all parties engaged. The following are some of the key principles that parties need to uphold in order to maintain the long-term sustainability of relationships, towards the common good in the long run.

Key principles in international trade relations

a) Fair play-Win-win type of dual or multi-stakeholder relationships, as long as being in accordance with international law and practice. For example, one country should treat other countries equally in international relations, without favor or discrimination against any of them.

b) Respect national sovereignty-respect should be paid and and no infringement of sovereignty over territorial, territorial, air, cultural and legal systems of any country in international economic relations should take place.

c) No internal interference-parties do not interfere with the internal situation or occurrence of each country or business.

More specifically, the following will be covered by the World Trade Organization principles that members are required to adhere to:

- Most Favored Nation (MFN)-with certain exceptions for some underdeveloped and developing countries. WTO members are not allowed to treat non-WTO countries more favorably than the rest of the organization.
- National Treatment-with certain exceptions for some objects and goods. Goods of non-WTO member countries are not entitled to more preferential treatment than those of WTO members.
- Mutuality-WTO member states should, and often do, take appropriate steps in the conduct of other member states' good and bad deeds (retaliation).
- Expanding trade liberalization-abolishing non-tariff control, reducing tariff controls from 60% to 0-5%, depending on the specific roadmap and negotiation conditions set out individually for each member state.
- Transparency of economic policy-towards achieving stability and predictability at high level so that businesses can easily and conveniently plan and operate their international business.
- The incentives and preferences for underdeveloped and developing countries, as their capacity to implement obligations under the WTO is significantly lower, and their capacity and resources are much more limited. These countries need special assistance from the rest of the WTO members and a more flexible roadmap to fulfill their obligations while enjoying greater incentives and preferences should be in place.
- Flexibility in fulfilling obligations and support to fulfill commitments

Exceptions

The rules within WTO should not be applied rigidly but flexibly instead. So exceptions should be implemented, depending on particular situation. The following are some of the exceptions to the principles of international trade:

- General exception-protecting national heritage, human life, stabilizing supply and demand of essential goods (petroleum, food).
- Exceptions to security-human trafficking and weapons smuggling.
- Trade defense-if a serious threat is posed to the domestic production.

- Clauses of Global Agreement on Tariffs and Trade (GATT)-not applied to new members.
- General System of Preferences (GSP)-proposed by developed countries for underdeveloped and developing countries. There are different levels, more preferential than MFN, to help them increase competitiveness and speed up economic development. Since then, developed countries have also benefited indirectly.
- Free Trade Area and Customs Union-formed and signed by a number of countries outside the WTO.

3.2.3 International trade policies

International trade policy-concept

International trade policy is a system of appropriate views, objectives, principles, tools and measures that the state uses to regulate the international trade of each country in order to achieve certain economic development objectives.

International trade policy is one of the components of foreign economic policy, related to trade, investment and balance of payments. Foreign policy of a country includes economic policy and foreign non-economic policy.

International trade policy-role

International trade policy plays the following key roles in developing a nation's economy:

- The role of attacking and taking initiative-creating conditions for domestic enterprises to penetrate foreign markets, participate in the division of international labor and international trade, exploit thoroughly the comparative advantages of own economy.
- The role of passive defense-protecting the domestic market so that domestic enterprises can stand up and compete with foreign enterprises right at home.

International trade policy-tools

In order for international trade policy to play its role properly, policy-makers can use the following tools to adjust their policies toward the direction they want, which is beneficial to the national economy and its citizens:

- Tariff-increase or decrease tariffs on imported and exported goods.
- Quotas-set quotas for imports and exports within one year.

- Licenses-licenses are rarely used in a market economy but they still play an active role for regulating certain particular commodities.
- Voluntary export restriction/promotion-the parties negotiate with each other if a country exports or imports too much/too little.
- Technical standards-they are stemming from practical requirements and reflecting the level of economic, social and technological development.
- Export and import subsidies.
- Export and import credit-from the state, granted to enterprises of importing and exporting countries.
- Dumping-the export by a country or company of a product at a price that is lower in the foreign market than the price charged in the domestic market.
- Devaluing currency-is a deliberate downward adjustment to the value of a country's currency relative to another currency, group of currencies or standard. This is a monetary policy tool used by countries that have a fixed or semi-fixed exchange rate.
- Other-domestic tax, exchange rate, state monopoly, export bonus, import deposit and so on.

3.2.4 Trade liberalization and protection

Trade liberalization and trade protection are two opposite trends in international trade. In fact, no country has allowed itself to fully liberalize or apply the absolute protectionist regime in its international trade relations with other countries, but flexible strategies and policies are possible, depending on the specific situation and time.

Liberalization and trend of open economy

The general trend of globalization (standardization, towards global standards that meet the common needs of all human beings) and trend of regionalization (customization, diversification and differentiation to meet in the best way, the specific needs of each local market) is directed towards the open and inclusive integration of economies by eliminating trade and non-trade barriers between countries around the world.

The international division of labor and the role of multinational corporations (MNCs) at times larger than the role of a state. The labor market is global and MNCs see the world market as one highly unified market.

Minimize trade and non-trade barriers, technology and non-technology barriers to increase exports and create favorable conditions for imports.

Trend of protectionism

Production conditions and competitiveness of the domestic enterprises are significantly low. Therefore, these enterprises should be put under the strict protection regime, if no it is very difficult to compete with foreign businesses which are stronger in all aspects.

Protecting the nascent industry, such as the automobile industry of Vietnam. Just like domestic firms, some of them have low international competitiveness, so they need to be protected and rigged, if no they cannot compete and survive on the global market with potential players having comparative advantages in all aspects, who come from highly developed countries such as Korea, Japan, USA and Germany.

Contribution to public finance-exports help to bring in foreign currencies, and improve the balance of payments and increase the foreign exchange reserves of each country.

Facilitate the expansion of domestic production, gradually improve the level of human resources and reduce unemployment – this is especially true for populous countries with young populations such as Vietnam, Indonesia and India.

Redistributing income, narrowing the gap between the rich and the poor, the “have” and the “don’t have” in the country or local areas – but it is in fact not always necessarily a good solution.

The dialectical relationship between free trade and protectionism

Trade liberalization and trade protection always exist in parallel and are used alternatively or in combination, depending on the level of socio-economic development of each country, the particular conditions and the specific time, the field of international trade. This should be flexibly and jointly applied between these two forms.

- Trade protection such as sanctions, is still subject to selective and conditional treatment.
- Freedom in financial services in Hong Kong, Singapore and Switzerland; in gambling services in Macau and USA are absolute and contribute to the great success of these nations.
- Four freedoms in the European Union-the flow of capital, the flow of labor forces, the flow of information and know how, the flow of goods and services.

3.2.5 International trade-cases

Vietnam's international trade activities in recent years have progressed favorably. Vietnam is a trading partner of most countries and territories around the world. These activities reveal a number of strengths (the advantages of Vietnam that need to be further strengthened and exploited), but there are also some weaknesses (disadvantages need to be overcome and improved)

The strength of Vietnam's foreign trade in years of renewal

- Foreign trade (import-export turnover) grew by an average of 20% per year, while GDP growth was only 6-7% per year.
- Open up border and diversify both trading destinations and categories of traded goods and services. Since the 1990s, Vietnam's export markets have focused on Russia and some Eastern European countries, but now Vietnamese goods, especially some of the dominant commodities, are already present in all corners of the global market.
- Large-scale export items to tap Vietnam's comparative advantages are: textiles, agriculture, forestry and fisheries. They have gradually affirmed Vietnam's position in the international division of labor and global value chain.
- Vietnam has been participating in international economic institutions and international and regional economic organizations such as WTO, AFTA, APEC (Asia Pacific Economic Community), TPP (Trans Pacific Pact), ASEAN. Vietnam is stepping up its liberalization of international trade and investment finalized by the fact of its entry into the AEC (ASEAN Economic Community) by the end of 2015 and the TPP.

The weakness of Vietnam’s foreign trade in renewal years

- The size of import-export turnover of Vietnam is too insignificant compared to other countries in Southeast Asia. The moment of Vietnam's start to open up to the world and orient toward international integration is too late compared to other countries in the world and in the region (except for the newly opened up Myanmar to globalization and integration a few years ago and North Korea, a hermetic state still closed).
- Vietnam's export items are mainly raw materials, low processing, agro-forestry products with low scientific content and lack of

competitiveness in international trade. So Vietnam still holds a relatively low position in the global value chain.

- The management of foreign trade activities, both import and export, is lack of synchronicity and consistency, so Vietnam is still not very much credible in eyes of foreign friends.
- Smuggling through border gates is still a pandemic problem, especially with China as its largest neighbor.

3.3 International investment

3.3.1 Introduction to international investment

The concept of international investment

International investment is a way of moving capital from one country (usually highly developed) to another (usually developing or less developed) country by multinational corporations to implement investment projects that benefit all parties engaged. Investment flows can also come from emerging markets to other emerging markets or advanced (developed) market. The following are examples of some most well-known China's multinationals, an emerging country in the international technological market: Acer, Lenovo, Huawei, Haier, Oppo, etc. Firms see, in addition to immediate and temporary risks, the potential benefits of investing in the international market. The following are some of the more common causes intensifying international investment as irreversible ans irresistible trend of the world economy.

Take advantage of comparative advantage of each country

- **Developing country (as the investment recipient):** Human resources are competitive in terms of price, low investment cost, and infrastructure is gradually improving.
- **Developed country (as the investing side):** They have advanced production technology, professional management knowledge, abundance of financial resources.

Benefits of participants

- **Developing country:** Opportunity to access new potential markets, expand technology through technology transfer.
- **Developed country:** Access to capital for infrastructure development, access to modern knowledge and technology and professional working style.
- Implementation of large-scale projects requires the participation of

many countries, even the need for additional government involvement, in areas such as nuclear development and exploration and space conquest.

As noted above, in addition to potential benefits, international investment also entails certain risks and disadvantages for all parties involved, the investor and the investment recipient. The following is an analysis of contradictory side of this issue.

Impact of international investment on the investor's country (e.g. Japan)

Positive impact

- The investment environment is more attractive, easier to grow and grow strongly.
- Indirectly compete with other enterprises also investing in Indonesia.
- Overcoming barriers to trade protection, because instead of export, investment projects tend establish business for production and distribution of made product in the local target market.
- Promoting products, reputation, creating prestige in the world.

Negative impact

- Job loss and brain drain in the investor's country-job opportunities will be lost in Japan and created in Indonesia. Some staff, senior experts will leave Japan to come to Indonesia to live and work.
- Risks related to the new investment environment-not enough knowledge and experience about the realities of Indonesia's investment and business opportunities and risk will hamper the project.

Impact of international investment on investment recipient's country (Indonesia)

Positive impact

- Create jobs, contribute to local development, solve difficult problems due to lack of capital.
- Get advanced technology transfer, professional management know-how.
- Exploit and use national resources effectively.

- Modernization, social and economic restructuring, participation in auxiliary industries for Japanese enterprises.

Negative impact

- Affected and dependent on the investor.
- Negative impact on the ecological environment and social environment (price transfer, environmental pollution).

3.3.2 Foreign portfolio investment

The concept of foreign indirect investment

Foreign indirect or portfolio investment is the most flexible form of capital flow or movement through the stock market, in which the owner does not directly manage the use of capital they invest (rather speculate): loans, stocks, bonds.

Foreign indirect investment (FDI) will be converted into foreign direct investment (FDI) when the number of shares and bonds is too large, exceeding a certain threshold, then the investors become strategic shareholders and they have the right and the responsibility to participate in the shareholder board and gradually to join the management staff of the company.

Characteristics of foreign indirect investment

- Private Equity-Individuals can buy stocks and bonds of listed companies on the stock market; however they are regulated at the rate that each individual cannot buy more than 10% to 25%, depending on industry, country and specific regulations of each listed company.
- Funds provided by governments, international organizations, non-governmental organizations-These are large amounts of capital, accompanied by incentives for interest rates and repayment periods, and other relevant political factors. Example is the heavy investment of currency surpluses (due to trading surpluses over years) of Chinese government in US bond market.

3.3.3 Foreign direct investment

The concept of foreign direct investment

Foreign direct investment (FDI) is the type of international investment that the owner of the capital directly manages the investment project and the use of capital that he himself has mobilized.

Characteristics of the form of FDI

In contrast to the ODA (Official Development Assistance), the following are some of the characteristics of FDI:

- The investor contributes the minimum capital to the legal capital.
- The right to manage and operate depending on the level of capital contribution.
- Profit or loss divided according to the capital contribution ratio in legal capital.
- Foreign direct investment projects involve the construction of new business, called joint venture, from scratch (greenfields) or not, acquisition of all or part of the buy-out company, or through the acquisition of shares in the stock market.

Types of FDI

The following are some forms the of foreign direct investment project:

- Diversified forms of domestic business cooperation.
- Joint-venture enterprises.
- Enterprises with 100% foreign capital.
- Export Processing Zone (EPZ)-such as Linh Trung and Thu Duc.
- Industrial Zone (IP-Industrial Park)-such as VSIP (Vietnam Singapore Industrial Park) I, VSIP II, VSIP II expanded in Binh Duong province, Viet Huong IP, Tan Huong IP in Tien Giang province.
- High Tech Zone (HTZ)-such as Hoa Lac in Northern of Vietnam, Thu Duc in Southern of Vietnam.
- Special Economic Zones (SEZ)-such as Phu Quoc Island;
- Types of B [O] T (Build- [Operate]-Transfer) project contract.

The following are specific characteristics and objectives of export processing zones and industrial parks:

Export processing zone

- Attract export-oriented foreign capital enterprises.
- Import of duty-free goods and services for diverse export production purposes, accompanied by favorable trade conditions.
- Receive science and technology boost, enhance management and labor skills.

- Boost foreign exchange, foreign exchange reserves and economic development.

Industrial Zone (Industrial Park)

- Place of concentrated resources for industrial development (regional structure and priority industries).
- Regulations and procedures are more convenient and attractive, development infrastructure are more modern.

The advantages and disadvantages of FDI

In addition to the outstanding potential benefits, foreign direct investment (FDI) entails certain risks and disadvantages for all parties involved, the investors and the investment recipients. The following is a contradictory analysis of this form of investment:

The advantages for investors:

- To control investment activities so as to be highly effective.
- Expanding the market, avoiding trade protection barriers.
- Exploiting raw materials and low labor costs.
- Technology transfer (technology is also an item for sale).

Advantages for the host country, the investment recipients:

- Receive technology, management experience, advanced working style.
- Effectively exploit human resources, natural resources and domestic capital through advanced technology transfer.
- Upgrading and improving infrastructure.

The disadvantage for investors:

- Investment environment and ecological risks.
- Brain drainage.
- Losing employment opportunities for home workers.

The disadvantage for host country, the investment recipients:

- Difficult to take initiative in the structure of investment by branch and territory.
- Widespread investment, exploited resources and environmental pollution.

- Incorporation of backward technologies which cause environmental and economic harms.

3.3.4 Official development assistance

Official Development Assistance (ODA) is established by developed countries for the sake of developing countries with non-commercial objectives such as development cooperation between the two or more states, the government of a country and foreign governments, intergovernmental or intergovernmental organizations.

Forms of official development assistance

- Non-refundable ODA-grants, supports.
- Preferential ODA loans-of which at least 25% are non-refundable.
- Mixed ODA-at least 25% items are non-refundable and the rest is preferential loans.

Forms of financing ODA funds

- Support the international balance of payments and the budget deficit-as additional payments if there is a serious deficit.
- Support and funding for programs-with specific deadlines, dates and scope of activities.
- Support for social development projects-such as infrastructure development, professionalization of consultancy services, human resources development and training.

However, in order to receive the ODA funding, the Vietnamese side needs to have a certain amount of counterpart funds to carry out ODA funded projects.

ODA suppliers

- Foreign governments-Highly developed countries like Sweden annually disburse hundreds of millions of USD of ODA to Vietnam.
- Intergovernmental or transnational organizations.

International organizations providing funding within the frame-work of their respective undertakings and objectives: United Nations Educational, Social and Cultural Organization (UNESCO); United Nations Development Program (UNDP); United Nations Children's Education Fund; (UNICEF) The United Nations Food and Agriculture Organization (UNFAO); United Nations Industrial Development Organization (UNIDO);

World Health Organization (WHO); World Food Program (WFP), International Atomic Energy Agency (IAEA); International Monetary Fund (IMF); World Bank (WB), the Association of South-East Asian Nations (ASEAN); EU (European Union); OECD (Organization for Economic Coo-peration and Development); Asian Development Bank (ADB); Organization of Petroleum Export Cooperation (OPEC).

Areas of ODA investment

ODA is the programs with non-commercial capital but it involves certain priority sectors, depending on the form of ODA, as follows:

Non-refundable ODA – for humanitarian purposes as follows:

- Poverty reduction, agriculture and rural development
- Health, population and development
- Education and training of human resources
- Environmental issues
- Administrative reform

ODA loans-for development purposes as follows:

- Transportation, communication
- Energy
- Social infrastructure
- Balance of payments support

Usually, the allocation of ODA funds is done through the process of attraction, management and usage that includes the following steps:

i) Make lists of programs and projects
ii) Capital mobilization
iii) Negotiate, sign frame agreements
iv) Notification, preparation of documents
v) Appraisal and approval of contents
vi) Negotiating and concluding specific treaties
vii) Implementation and execution
viii) Monitoring, evaluation, acceptance, settlement, handover

Advantages and disadvantages of ODA

Compared with other sources such as foreign direct investment FDI, ODA has certain advantages and disadvantages as follows:

Advantages:

- The capital receiving party shall take the initiative in the allocation and use of capital.
- Investors are less likely to suffer from a fixed interest rate.

Disadvantages:

- Limited ability to attract capital, technology and management experience from foreign investors, because ODA is not of high commercial nature, so it does not attract potential businesses.
- Investment receiving countries are more likely to be tied to the political influence of investment countries, which are highly developed and highly influential in the world and regional economies.
- The efficiency of using capital is not really high as it does not have many commercial features.

3.3.5 International labor movement

International investment involves the transfer of capital funds from developed to less-developed countries so that both parties can take advantage of certain competitive advantages. Capital in the conventional sense is the financial capital (money), the strength of wealthy and developed countries. In international investment another source of capital is vital, involves and sometimes accompanies with financial capital that is the international workforce moving from one country to another, following or not following the financial capital being invested.

The concept of international labor migration

Workers can move from one place to the other in search of the best job and life. So there are two motives, both the aim and the purpose of international labor migration process, namely: economic (better job chance, development opportunities) and non-economic purpose (political and religious causes; refuge background).

International labor market

The labor force is also one of the sources of capital needed in production and business, and may, to some extent, be regarded as a commodity. The flow of labor force is the least mobile among four freedoms of movement: labor force, capital, information and know-how, goods and services. As a form of commodity, there must be a market for it. Here we call the labor market with the following characteristics:

These goods may be exported through the following forms:

- Direct labor export-going abroad to settle and work.
- Labor export on the spot-working in the domestic market for foreign joint venture companies.
- The commodity has a low mobility compared to the international movement of financial capital through the stock market and other trading channels.

Vietnam's labor export-import market

The following are some analyses related to Vietnam's international labor market, or rather the situation of labor export and import of Vietnam in recent years.

Import trends of labor in the world

- Due to the imbalance of supply and demand in the international labor market, depending on local needs, specific industry, according to International Labor Organization, in 1965 there were 75 million migrated workers, in 2000 there were 150 million migrated workers.
- In developed countries, there is a potential market for Vietnam's labor export. Highly developed countries need both highly skilled workers (engineers, doctors, university professors) and low skilled workers (nurses taking care of the elderly, in Germany and Japan, for example).
- In developing countries, there is a lack of highly qualified labor, surplus of unskilled labor and labor export on spot.

Labor export situation of Vietnam:

- The former Soviet Union period-Vietnam exported its labor force mainly to Eastern European countries and Africa. The labor is mainly low-skilled and to be trained by importing countries and organizations which also bear the cost of training, based on the form of contracts signed between governments.
- After 1990, the relationship in the labor market shifted to the mode of supply and demand. Within this period, Vietnam exported 700,000 workers (of which only 30% are qualified) to 40 countries. In 2008, Vietnam exported 85,000 workers to Asia (Japan, Korea, and Taiwan), Europe (mostly Germany), Africa (Libya, Angola...).

Issues disclosed in the labor export and import of Vietnam

- The number of labor exporting destinations is not up to the potential of a young population of over 90 million people
- The labor export market is not very stable and diversified, still narrow, mainly including the regional countries such as Japan, Korea and Thailand
- There is no professional, reliable service for labor recruitment for export
- State policies are lacking in its synchronism, legal support to protect the interests of workers and for the enterprise

3.3.6 International investment-cases

The achievements of attracting FDI capital of Vietnam

After several decades of attracting foreign direct investment, Vietnam has achieved some encouraging results:

- Directed towards key industries (information technology, metallurgy, mechanics, construction, textiles, footwear, food processing) and important services (tourism, transportation, finance, banking, health), contributing to industrialization and modernization of the country.
- The average size of investment projects is bigger and bigger (over 100 million USD).
- More leading companies in the world tends to invest in Vietnam, such as Tokyu, Kumho, Panasonic, Mapletree, etc.
- Advanced technology has penetrated production and business processes, especially in large scale industrial establishments.
- Creating jobs, stabilizing people's life, raising average incomes and boosting Vietnam's labor skills.
- Promoting economic growth, generating revenue for the budget.

The shortcomings of attracting FDI capital of Vietnam

In addition to the above mentioned achievements, there are many shortcomings that need to be addressed soon:

- Many projects have been withdrawn before the deadline (mostly in real estate and financial services sectors).
- Unbalanced development between regions, sectors and localities (East-West, delta-mountainous areas).

- The Vietnamese side only contributes 30% financially to projects which make it difficult for the management to be disadvantaged for the Vietnamese side.
- Some related policy documents still need to be resolved.

Due to the economic crisis in 2008, the actual FDI (disbursed) capital in Vietnam decreased compared to the declared capital (committed).

The achievements of ODA attraction in Vietnam

At the same time, Vietnam has achieved a number of remarkable results related to the attraction and use of ODA resources:

- ODA capital disbursement is 50% of committed capital.
- Support to the budget, adjust the economic structure and implement economic reform.
- The legal environment has gradually improved.
- The reciprocal capital (self-owned) has been more timely guaranteed.

The shortcomings of attracting ODA from Vietnam

At the same time, they are many problems related to the attraction and use of this type of non-commercial capital:

- Slow disbursement, efficiency and quality of projects are low.
- Weaknesses (lack of professionalism) in the preparation, organization, implementation, monitoring and evaluation of projects.
- Difficulties in compensation for ground clearance.
- Capacity and management are limited.

Orientation and solutions for the future

With the advantages and the persistence in attracting and using various types of foreign capital such as FDA and ODA, the following are some guidelines and measures to attract and use more efficient water resources in the next period of time:

- Macroeconomic stability, promoting advantages in international economic integration.
- Diversification, multilateralisation of international economic relations.
- Complete, consistent and transparent legal system.

- Reforming the management mechanism, facilitating and opening up economic activities.
- To develop a multi-component commodity economy so that each component can promote its production and business power.
- Improve the quality of human resources, especially those in the field of international investment.
- The planning work must be linked to the socio-economic development strategy.

3.4 International finance

3.4.1 Balance of international trade

The concept of international balance of payments

The international balance of payments is a systematic review of all international commercial transactions between (the residents and companies of) one country and other countries within a particular period, usually one year.

The international balance of trade is the difference between the value of a country's imports and its exports for a given period. The *balance of trade* is the largest component of country's *balance* of payments.

Principles of accounting in international balance of payments

- Credit (export, increase coming in cash flow) and debit (import, increase coming out cash flow). For example: India exports to the US goods worth 1 million USD-write on the credit side 1 million USD for the account of India.
- Write double numbers-write both credit and debit but with opposite sign. For example: India exports to the US $ 1 million worth of goods-write on the credit side 1 million USD for India's export account, write on debit side 1 million USD to account for increasing the value of Indian assets overseas.

Components of the international balance of payments

The current account balance includes:

- Balance of trade (goods, services)-according to principle: if credit (export)> debit (import) then surplus else deficit.
- Unilateral transfer (income, unilateral payments)-donations, transfers, dividends, income.

Balance of capital (capital account) includes:

- Long-term balance of capital (long-term investment and credit)-determines the attractiveness for investors [when the surplus is greater].
- Short-term balance of capital (short-term credit)-speculative transactions, with liquidity of less than one year, determines the short term liquidity for investors.
- *Official assistance account*-to adjust other transactions, support and regulate the international balance of payments, such as ODA investments and aid. Change in official assistance account.
- Changes in foreign exchange reserves of the country.
- Credit with the International Monetary Fund and other central banks.
- Changes in foreign exchange reserves of other central banks in the national currency-this country must be really an economic powerhouse (China, Germany) and/or very wealthy and powerful (Switzerland).

3.4.2 Foreign exchange and exchange rate

The concept of foreign exchange market

The foreign exchange market is the international monetary market for foreign exchange transactions and other means of payment equivalent to foreign currency, for example, the traveler's checks. More precisely, according to Investopedia, the *foreign exchange market* is the *market* in which participants are able to buy, to sell, to *exchange* and to speculate on currencies; f*oreign exchange markets* are made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

The major currencies of the world that are most traded in the foreign exchange market include: USD, EUR, GBP, JPY, CHF (Swiss Frank), AUD, CAD. The list of major currencies differs considerably from region to region. The major currencies of the world in Asia that are most circulated in the foreign exchange market are: USD, EUR, GBP, CNY, JPY, SGD, KRW, CAD, and AUD. The major currencies of the world in Europe that are most circulated in the foreign exchange market: USD, EUR, GBP, JPY, CHF, CAD, AUD, SEK (Swedish Korona). The main currencies of the world in the United States that are circulated in the foreign exchange market: USD, EUR, GBP.

Functions of the foreign exchange market

- To meet the needs of foreign exchange to serve payment in the fields of international investment, trade and non-commercial operations.
- Where the central bank conducts monetary policy to control the economy in accordance with government objectives.
- Credit function for import and export - late payment with banks as intermediaries.
- Risk prevention instruments in foreign exchange and hedging funds (speculation).

Participants in the foreign exchange market

Banks

- Central bank-organizing, controlling, managing and stabilizing the foreign exchange market.
- Investment bank and commercial bank-with business and brokerage goals. Their impact depends on: size and scale of activities, prestige, network of domestic branches and branches abroad.

▪ Brokers-providing information and consulting service, finding and matching partners.

▪ Import/Export enterprises, multinational and transnational companies (scale of operation, foreign currency reserves, and foreign currency transactions).

▪ Individuals and small and medium enterprises.

Foreign exchange trading

Basic Forex trading:

- Spot-executed within 2 days, to earn on differences (gold shops in Vietnam, Exchange tube abroad) or on transaction fees.
- Arbitrage-making supply and demand meet. 1 GBP = 1.7USD in London, 1 GBP = 1.65 USD in New York.
- Forward-fix the volume (1,000 USD), the exchange rate (1 USD = 22,000 VND) and then fixed term (after 30 days).

Derivative foreign exchange transactions:

- Swap-swap spot transaction with forward; immediately sell 1,000 USD, buy back 1000 USD after 1 month.

- Future-the market and the value of the contract is lower than the forward case. The contract can be sold ahead of time.
- Option: call options (right to non-obligatory buy) and put option (right to non-obligatory sell).

Risk in foreign exchange transactions

The risk in foreign exchange transactions is the level of exchange rate fluctuation between different foreign currencies being listed. Exchange rates fluctuate sharply but fluctuations are lower than the trading band of stocks and commodities. The constant change of exchange rates for individuals, exporters, investors, banks when receiving or paying in the future a foreign currency makes them buy insurance, that is to hedge for money received or paid at different moments of time in the future. In Vietnam (as well as in China) due to the policies of the State Bank of Vietnam, the exchange rate of VND is anchored in USD, so there is less fluctuation, the risk is also lower.

Hedging is measures to avoid or control foreign exchange risk to be implemented in the spot, forward, futures and options markets. In the context of ever-changing exchange rates, there is a positive impact of hedging on international trade and investment. *Currency speculation* is currency trading activities based on changes in exchange rates in the spot, forward, futures and options markets.

Concept and listing exchange rates

The exchange rate is the price of a currency unit of one country expressed in the currency of another country. Normally, we have two ways of determining (listing) exchange rates:

- Take the local currency as a unit of comparison (for example, 1 GBP = 1.7 USD, 1AUD = 0.85 USD), applicable in the UK, Australia and the United States.
- Take the foreign currency as a unit of comparison (for example, 1 USD = 21,500 VND).

It is recommended to take the major foreign currency, such as USD, GBP and EUR or to take foreign currencies with high value as a comparison unit.

From the point of view of the method of listing, we have a fixed exchange rate (fixed-for example, determined once a day) and the real exchange rate (based on price fluctuations and constant changes). Fixed exchange rates are recommended and widely used due to the fact that they reduce risk and speculation chances, assuring more stability for buyers and sellers within a day. They make no sense in case of sudden sharp fluctuation within a day or in some countries (Zimbabwe and Venezuela lately) where the local currencies lose their significant value just within a day (hyperinflation).

Factors affecting the exchange rate

Here are some of the key factors that have a major impact on the exchange rate:

- Inflation rate between countries-higher in developing countries, lower in developed countries.
- Change in national income (GDP) between countries-GDP increased, causing imports to increase, causing the demand for foreign exchange increased.
- The interest rate of the domestic currency increased, causing foreign exchange supply to increase.
- Expectations on the exchange rate-mainly due to psychological factors, such as herd psychology, psychological panic in the market.

Government intervention:

- Export subsidy, export credit.
- Investment demand, taxation of investment income.
- The central bank buys and sells directly to adjust exchange rates.
- Other unquantifiable social and psychological factors.

Exchange rate regimes

- Fixed regime-thanks to central bank intervention in the foreign exchange market the rate is to change within a very narrow planned band within a year that is +/- 1%. This is the case being applied in Vietnam.
- Floating mode-based on the supply and demand correlation between currencies in the foreign exchange market. This is the case being applied in most developed countries. Hedging must be in place to avoid currencies related risks.
- Mixed mode-manageable float. The case being applied commonly in the world.

Purchasing power of money

The purchasing power of a country's currency depends on the size, growth of economic and in terms of population, openness, position and competitiveness of the economy, and its participation in the international division of labor and value chain.

The impact of exchange rates on international economic relations

- For international trade-exchange rate appreciation (VND depreciation, devaluation) will be detrimental to imports but beneficial for export.
- For international investment-exchange rate appreciation (VND depreciation, devaluation) will be detrimental to foreign investment in Vietnam, which will benefit Vietnam's investment abroad.

3.4.3 International monetary system

The concept of the international monetary system

The international monetary system is a set of rules, regulations, mechanisms, and institutions established to influence financial and monetary relations between countries in the world. According to the Wikipedia, international monetary system is a set of internationally agreed rules, conventions and supporting institutions that facilitate international trade and investment and generally reallocation of capital between nations, states.

The purpose of the existence of the international monetary system

- To ensure the stability of international monetary relations, to create the basis for the development of international economic relations (free trade and investment) in general.
- Promote international economic cooperation (balancing of payments) while achieving internal objectives (stabilizing prices, maximizing the use of production factors) and at the same time minimizing the contradictions and disputes that may arise.

Characteristics of international monetary system

The characteristics of international monetary system depend on the socio-economic conditions of each stage of the world economic development history. The monetary system can be classified based on the following factors:

- Determine the exchange rate regime-floating, fixed with adjustments, floating but manageable.

- Types of international monetary reserves-instruments (e.g. currencies or/and gold) to adjust exchange rates and balance of payments.

Criteria for determining the effectiveness of a monetary system

- Maximize production and usage level of the world's manufacturing factors.
- Equitable distribution of economic interests among nations as well as between social classes in a country.
- Help countries minimize the time and cost of adjusting the balance of payments.
- Providing enough international reserves to help countries adjust the balance of international payment without causing inflation or deflation.
- Maintain absolute and relative value of international reserves.
- Works smoothly, does not cause confidential crisis.

International monetary systems in the history of the world economy

The first international monetary system (1867-1914), Paris gold standard

- Gold is the official source of international reserves.
- States determine gold prices in their own currencies.
- The exchange rate fluctuates very little (less than the freight of gold from one country to the other), no need for the government to intervene to control the exchange rate.

Before the World War I, capitalist countries collect gold to prepare for war, which left the regime collapsed.

The second international monetary system (1922-1939), the gold exchange regime

- After the World War I exchange rates were floated.
- The new international monetary system included gold and strong currencies (convertible to gold) such as GBP, USD, FF [France's Franc] plays the role of international reserves and payments, and other currencies must exchange it before converting to gold.
- This system collapsed because France converted all of the GBP it had to gold and Great Britain too.

- The impact of World War I and the Great Depression of 1929 - 1933, the USA dethroned Great Britain and USD became the world strongest currency.

The third international monetary system (1944-1971), Bretton Woods, gold-dollar regime

- Fixed exchange rates in the short term, adjusted for basic imbalances.
- Establishment of the International Monetary Fund (IMF) with sufficient reserves of gold and money, with certain functions and powers. IMF determined lending limit, contributions of its members (25% of gold and strong currency, 75% of own currency) and voting rights of each member reviewed every five years. The USA's contribution had fallen from 31% to 19% in this period.
- This system collapsed due to the fear of USA's trading deficit and USD's devaluation.

The fourth international monetary system, Jamaica, 1978:

- The floating exchange rate is to be managed; all countries have the right to determine their own exchange rates.
- Remove the limit of 25% gold, calculated in foreign currency.
- International Monetary Fund (IMF) and the World Bank (WB) as consultants, allowing the formation of narrow currency unions.

The European Monetary System (EMS), 1979:

- Each country receives an amount of ECU (European Currency Unit) and pays 20% of its foreign exchange reserves. The exchange rate was allowed to fluctuate only +/-2.5% against the strong European currencies, +/-6% against the remaining European currencies.
- Interventions of central banks to stabilize exchange rates through: changing discount rates, intervening in the money market, mutual lending.
- European ECU is like the Single Depository Reserve (SDR) of the International Monetary Fund.

The process of unification of European currency

- The first time failed due to grave economic crisis in 1980.
- The second time.

- **1990-1993:** Coordinated European monetary and economic policy among future members of the union.
- **1994-1998:** Coordinated European monetary and economic policy at higher, more integrated level among future members of the union. As a result, the European Central Bank (ECB) was founded in 1998.
- **1999-2002:** EURO was functioned as the currency of 12 European countries (Germany, France, Italy, Belgium, Holland, Luxemburg, Ireland, Greece, Spain, Portugal, Austria, Finland), but only in the cashless transactions.
- **From 2002 onwards:** EURO started to be used in cash transactions.

3.5 International economic integration

3.5.1 International economic union and integration

The concept of international economic integration

The international economic integration is a process of integrating economies into a strongly unified economic structure to:

- Achieve maximum benefits for members and minimize developmental disparities. The best rolle model of international economic integration so far is the European Union.
- Promote the multi-dimensional and comprehensive economic relations and form regional unions such as the Association of South East Asian Nations (ASEAN) and interregional, intercontinental unions such as BRICS (a group of developing countries representing all continents), oil-exporting nations of Middle East, Russia and South America (OPEC-Oil and Petroleum Export Countries).
- It is an inevitable and objective economic process that is closely linked to the integration and developmental needs of each country.

Characteristics of international economic unions

- Increasing interdependence of nations and their dependence on the international division of labor based on the application of science and technology. Each country has its own position in the global value chain.
- Governments and businesses are aware of the benefits of this kind of relationship.

- A solution to the antagonistic relationship between liberalization (freedom of trade) and trade protectionism. There are many levels of integration starting from free trade, through unions to trade protection.
- Reduce conflict and isolation, contributing to peace and stability in the region and in the world. Get own voice be heard and position be strengthen.

The essence of international economic integration

- For developed countries-it is a process of transition from an industrial economy to a knowledge based economy under the influence of globalization and the revolution of science and technology, especially the 4th industry revolution.
- For developing and least-developed (underdeveloped) countries-it is a quest to exploit effectively resources and comparative advantages in order to avoid lagging behind in the development process.
- Unification of policies and regulations of each country with the international principles, customs and practices (in terms of partial or full abolition of tariff and non-tariff restrictions on international trade and creating favorable conditions for boosting international investment) to bring them all close together, for example, Poland became member of the EU and Vietnam joined the WTO as its 151th member.
- Eliminate barriers to smooth trade, investment, production and payment. That why four (4) free movements within the EU are obligatory: freedom of movement of goods and services; freedom of movement of labor forces; freedom of movement of information and know how; freedom of movement of capital.
- Enterprises are increasingly involved in the global value chain.
- Exploit, distribute and efficiently utilize domestic and foreign resources in a unified global market.

The objective indispensability of international economic integration consists in the inevitability, irreversibility of this trend as integration and cooperation are taking place at different levels of global economy.

Positive impacts of union and international economic integration

- Effectively exploit comparative advantages of member countries, strengthen trade and investment relations. Increase sustainably national GDP.

- To form a new and stable economic structure for the benefit of the community. Bring the world economy to its rightful place that is from New York, Paris, and London to Shanghai, Bangalore, Singapore, and Tokyo.
- To create a drive for healthy competition with the application of science and technology to restructure the process of economic management to find out more benefits and development opportunities.
- To improve the overall efficiency of the global economy.

Negative impacts of union and international economic integration:

- Disturbing the already existing economic order by the shaping complexity of the global economy.
- Forming national interest groups that are not for the sake of global interests, even within the EU.

Different types of union and international economic integration

The following types of union and international economic integration are presented from lowest to highest level of integration:

- Free Trade Agreement (FTA)-Agreement to lower tariff and non-tariff barriers between member countries (for example: AFTA-ASEAN Free Trade Agreement, ACFTA-ASEAN China Free Trade Agreement, NAFTA-North America Free Trade Agreement).
- Customs Union-Unified tariff policy for non-member countries (for example the EEC-European Economic Community)
- Common Market-With the four major freedoms mentioned above (for example the EEC)
- Monetary Union-With common central bank and general monetary policy (for example the EURO zone)
- Economic union-Unifying economic, fiscal (tax) and currency (interest rate) policies (for example the EU)

3.5.2 ASEAN, EU, APEC

Purposes of establishment of ASEAN

- Promote regional peace and stability in accordance with national and international law.
- Mutual assistance in the areas of mutual interest.

- Developing agriculture and industry, expanding international trade, raising the level of people's rivers.

Organizational structure of ASEAN

- High level conferences, ministerial meetings, inter-ministerial meetings, ASEAN secretary general meetings, senior officials meetings, etc.
- Standing committees, specialized cooperation committees.
- International and national secretariats.

The principle of ASEAN foreign affairs

- Respect for independence, sovereignty, equality, territorial integrity and national identity.
- Do not interfere in each other's internal affairs.
- The right of each nation to govern its activities.
- Resolve disputes by peaceful means.

The principle of internal coordination of ASEAN

- Agreed, rotating in the chairmanship of ASEAN.
- Equality in the obligation to contribute and share rights.
- Reciprocity, no confrontation, friendship, consensus, preserving common identity.

Characteristics of AFTA

The ASEAN Free Trade Agreement (AFTA) is a free area for foreign trade and investment of the ASEAN bloc through the following activities:

- Tariff reduction.
- Uniformity and recognition of commodity standards among members.
- Recognition of the receipt of certificates of origin.
- Remove restrictions on commercial activities.
- Strengthening macroeconomic consultancy.

Impact of AFTA on its member economies

- Government budget-import tax decreased, but at the same time increased trade volume.
- Commercial production-price competition but greater pressure from tariff elimination.

- Foreign investment-attract diverse source of foreign direct investment.
- Consumers benefit from competitive prices and variety of goods.

EU, Eurozone

The formation and development of the European Union

- In 1952, the coal and steel community came into being in six countries (Benelux, Germany, France and Italy). Coal and steel were the main input materials of the European and world heavy industrial processes at the time.
- 1957-1970-the formation of the Customs Union.
- 1970-1980-the period of European Union formation but it was unsuccessful due to the economic crisis and the collapse of the Bretton Woods system. The European Union (coal and steel) has three more members, namely Ireland, Britain and Denmark, bringing the total membership to 9.
- 1980-1982-the period of institutional improvement of the common European market.
- January 1, 1993-European common market was brought to life.

European monetary union

The European Monetary Union has gone through major stages of development:

- **Stage 1:** 1990-1993-Coordination of economic policies and cooperation between central banks of European countries.
- **Stage 2:** 1994-1998-Convergence of economic and monetary policy to prepare the EURO zone of 11 member states.
- **Stage 3:** In 1999, the EURO replaced the ECU which was the only currency traded in non-cash transactions. In 1998 the European Central Bank (ECB) came into being. In 2002 the EURO was officially in circulation, including cash transactions. The withdrawal period of individual currencies of the euro-area countries is from January 2002 to July 2002. The EURO zone then was composed of 15 countries.

European monetary union-convergence standards

European Union member states may apply for the EURO zone if they meet the following criteria, and are subsequently agreed upon by a referendum in that country:

- Inflation rate not exceeding 1.5% + average of the 3 countries with the lowest inflation rate.
- Long-term interest rate not exceeding 2% + the average of the three countries with the lowest long-term interest rates.
- Do not exceed 3% of GDP.
- Public debt does not exceed 60% of GDP.
- The national currency has not been devalued for two consecutive years, only fluctuating at a margin of 15%.

APEC

The APEC (Asia Pacific Economic Cooperation) forum came into being after the crisis and recession of 1980-1983. This was the Australian initiative in 1989. Until 1998, the APEC forum had 21 members and is expected not to expand further within the next 10 years. The goal of the APEC forum is to maintain growth and development for the benefit of the community, contributing to global growth by;

- Promoting economic activities (trade, investment), technology in the region and the world.
- Reduce trade and investment barriers among member countries where possible.

Principles of operation within the framework of APEC forum

- Comprehensiveness-The APEC liberalization and facilitation process will be comprehensive, addressing all impediments to achieving the long-term goal of free and open trade and investment.
- WTO-consistency-The liberalization and facilitation measures undertaken in the context of the APEC Action Agenda will be WTO-consistent.
- Comparability-APEC economies will endeavor to ensure the overall comparability of their trade and investment liberalization and facilitation, taking into account the general level of liberalization and facilitation already achieved by each APEC economy.
- Non-discrimination-APEC economies will apply or endeavor to apply the principle of non-discrimination between and among them in the process of liberalization and facilitation of trade and investment. The outcome of trade and investment liberalization in the Asia-Pacific region will be the actual reduction of barriers not only among APEC economies but also between APEC economies and non-APEC economies.

- Transparency-Each APEC economy will ensure transparency of its respective laws, regulations and administrative procedures which affect the flow of goods, services and capital among APEC economies in order to create and maintain an open and predictable trade and investment environment in the Asia-Pacific region.
- Standstill-Each APEC economy will endeavor to refrain from using measures which would have the effect of increasing levels of protection, thereby ensuring a steady and progressive trade and investment liberalization and facilitation process.
- Simultaneous start, continuous process and differentiated time-tables-APEC economies will begin simultaneously and without delay the process of liberalization, facilitation and cooperation with each member economy contributing continuously and significantly to achieve the long-term goal of free and open trade and investment.
- Flexibility-Considering the different levels of economic development among the APEC economies and the diverse circumstances in each economy, flexibility will be available in dealing with issues arising from such circumstances in the liberalization and facilitation process.
- Cooperation-Economic and technical cooperation contributing to liberalization and facilitation will be actively pursued.
- Relevance, progressiveness and effectiveness-APEC needs to deliver real benefits to economies and people, demonstrate leadership in confronting emerging issues, which impact on sustainable economic growth and development and bring about measurable progress and change.

Organizational structure of the APEC forum

- Economic Leaders' Meeting.
- Ministerial Meeting.
- Senior Officials Meeting.
- Secretariat.
- Committee on Budget and Governance, Trade and Investment, Economy.
- Business Advisory Council.
- Groups of people, work, and special responsibility.

3.5.3 Global economic and financial institutions

WTO (world trade organization)

The formation process of the WTO

- 1995-WTO replaced the GATT (formed in 1948 with 23 founding countries).
- 2007-Vietnam joins the WTO and is the 151st member of this organization. The WTO currently accounts for 98% of the world's trade.

Organizational structure of the WTO

- The Ministerial Meeting meets twice a year.
- The General Assembly and its members report to the Ministerial Conference, resolve disputes and revise WTO policies.
- Committees related to the respective fields of trade.
- Decision based on consensus and vote.

WTO operating principles

Most favorable nation: A status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must nominally receive equal trade advantages as the "most favored nation" by the country granting such treatment. Trade advantages include low tariffs high import quotas. In effect, a country that has been accorded MFN status may not be treated less advantageously than any other country with MFN status by the promising country.

National treatment: It essentially means treating foreigners and locals equally. Under national treatment, if a state grants a particular right, benefit or privilege to its own citizens, it must also grant those advantages to the citizens of other states while they are in that country. In the context of international agreements, a state must provide equal treatment to those citizens of other states that are participating in the agreement. Imported and locally produced goods should be treated equally, at least after the foreign goods have entered the market.

- Free trade can be arranged through negotiation, the WTO accession process also through negotiation.
- Predictability; Fair competition; Incentives for developing members.

IMF (international monetary fund)

- **1945:** IMF was formed with headquarter in Washington, branches in Geneva and Paris.
- **Purpose:** Loan to improve balance of payments, adjust economic structure, regulate exchange rate.
- **Structure:** Board of Governors, Board of Directors, Provisional Commission;

Types of credit:

- Regular credit
- Additional credit
- Long-term credit
- Credit to offset export losses
- Credit conditioning
- Credit structural adjustment

Constituent organs:

- IBRD (International Bank for Reconstruction and Development).
- IDA (International Development Association).
- IFC (International Finance Corporation).
- MIGA (Multilateral Investment Guarantee Agency).

Long-term loans:

- Support for policy reform.
- According to the project, the minimum loan is 100 million USD.

ADB (Asian development bank)

- 1966-ADB officially comes into operation, based in Manila, with members from Asian countries and other continents.

Function:

- Loans and development investments in developing Asian countries.
- Assist in the preparation of project implementation, development programs and consultancy.
- Coordination of development policies and plans of member countries.

3.5.4 International economic integration-cases

Vietnam

The first step-unilateral liberalization

- Transformed from centrally planned economy to socialist-oriented market economy.
- Establish a one-price regime, eliminate foreign trade monopoly.
- Development of the private sector.
- Economic reform, investment attraction.
- Openness and international economic integration.

The second step-direct participation in global economic unions and organization

Vietnam directly participates in the blocks, the forums:

- In 1996-ASEAN and AFTA.
- In 1996-ASEM (Asian Europe Meeting).
- 1998-APEC.
- From 1995 to 2007-WTO accession process.

The third step-indirect participation in global economic unions and organization.

Vietnam through ASEAN membership involved in relationships with different blocks (unions), countries.

- From 2002 to 2010-formation of ACFTA (ASEAN-China), from basic principles to specific regulations.
- 2004-Negotiating the formation of ASEAN, Australia and New Zealand Free Trade Area.
- ASEAN-Japan, ASEAN-India, ASEAN-US, ASEAN +3 (Japan, China, Korea).

Fourth step-join the bilateral economic relationships

Vietnam directly joins FTA with other countries:

- Since 2000, Vietnam has signed FTA with countries such as USA, Russia, European Union, Japan, and Ukraine.
- Until 2007, Vietnam encountered certain restrictions in directly participating in economic association with other countries, because it was then not a member of the World Trade Organization.

Commitment of Vietnam in international economic integration

- At the government level (prerequisite)-the policy of Vietnam is to participate strongly in economic unions, make friends with as many countries and territories as possible;
- At the enterprise level-large, medium and small enterprises increase their trade, services and international investment such as import and export, outsourcing, etc., thus increasing the economy's openness.

3.6 General business environment

3.6.1 Trends in global business context

Forecasting developments in the business environment

In addition to collecting information for the current management and decision-making processes in the enterprise, the rapid fluctuation of the external business environment (general and competitive environment) and even the internal environment of the business will make the forecasting process even more important. Forecasting involves identifying the changing conditions and trends of the business environment in the future. Through this, we will know in advance what happen, the possibility of them, the tendency of the key elements of the business activities but beyond its control. Businesses can predict the evolution of external factors or use the forecasted results, or outsource the forecasting works to other organization. This depends on the company's demand, forecasting capacity and affordability for ordered services, as well as general management policies. For this reason, businesses should focus on forecasting a number of important and key factors that have a significant impact on their business.

There are many methods of forecasting the impacting factors in the business environment, they vary in complexity, reliability, cost, in addition to their own advantages and limitations. Companies need to base their practical needs and their ability to choose the right approach.

Qualitative methods include empirical forecasting techniques and expert insights to predict events when past data is unavailable or difficult to collect. Each of the techniques or methods below has certain advantages and disadvantages, so they are often used in combination in different situations.

Delphi method-it is a method of synthesizing the opinions of experts in each specific field of expertise. Experts will be repeatedly provided data related to a number of factors to forecast. Experts will assess the level, direction of impact, the probability of occurrence in the future. These forecasts will be incorporated into the official forecast of the business.

Internal staff reviews-executives, managers at all levels, department staff in the company can participate in reviews, comments, forecasts. They are always close to the job and have a lot of practical experience so their judgment is usually correct.

Random interviews-random interviews of people outside the company such as customers or some people on the street to comment and comment on things that we are interested in.

Quantitative methods have been more widely used due to the advancement of information technology, making it less time consuming and less costly for researchers to adopt these methods:

Trend extrapolation-analyzing the time series, using data related to past economic events to forecast future trends. This approach is based on the assumption that past interactions between factors will continue in the future without re-examining those relationships. Therefore, the reliability of this method will not be high if new developments alter the past linkage of the factors that will lead to a complete change in the expected trend. In this approach, researchers construct the most consistent curve over time in the past as a basis for extrapolating future trends.

Trends correlation-it is a continuation of the trend extrapolation. In this approach, researchers are involved in a variety of time series to find relationships at different times between factors that actively support forecasting.

Mathematical model (in combination with computer use)-this assignment is usually given to mathematicians and programmers. Administrators can choose other methods such as statistical analysis or a combination of methods. The forecast results must be summed up by managers in comparison with the actual situation in the company. Managers are ultimately responsible for this prediction. For example, econometric models are predictive of the future value of an economic variable ($Q = Yc + bP + a$, Q-quantity of product demanded by the market, P-price of product, Y-average income) by examining the variables involved (a-independent variables, c and b are non-independent variables).

Some other methods:

- Experimental-In this method the samples are selected, and based on the results obtained on this sample, the results are generally broader.
- Input/output-This method is used to analyze each correlation between industries, such as the change in demand and how the

supply conditions of a sector affect the change in demand and how the supply conditions of other sectors are relevant because the input of the industry is the output of other industries.

- Multiple scenarios-to forecast progress, we should prepare a prevention plan and deal with researchers or administrators who can work out a variety of scenarios to deal with different scenarios (impact conditions of different environments) with different probabilities.

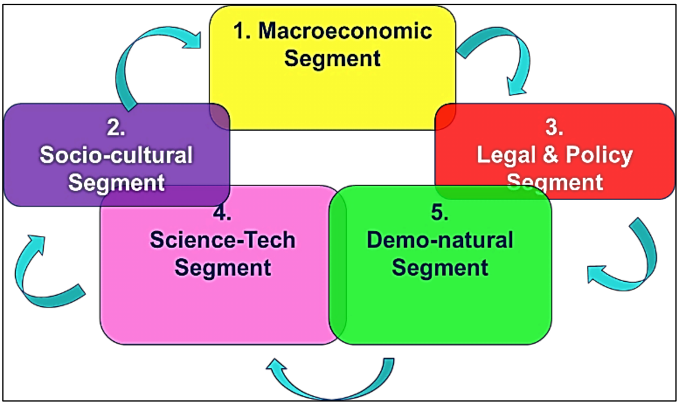
3.6.2 General business environment characteristics

Business strategies are planned and implemented in a dynamic and complex environment, containing many factors that affect the operation and success of the business. In the short run, random factors in the business environment can bring about successful flashes, such as securities, gold, or land speculation, or in case of the young industry which attracts not fully yet competitors participate. In the long run, the success of businesses depends on their own capacity and competitiveness. In analyzing and diagnosing strategies, the understanding the nature and dynamics of the business environment plays a very important role. Business environment is a complex system of trends, events and developments that create the general context for business activities of enterprises. Businesses can choose the most favorable business environment for themselves. In the United States, for example, large corporations often make business registrations in the state of Delaware because the legal provisions on business operations are looser than in other states. In Poland, for example, businesses often register for business in big cities, such as Warsaw, because the frequency of inspection by the customs authorities is low due to the excessive concentration of businesses. In the long run, the business can influence the business environment, such as capturing customer sentiment, building long-term relationships with suppliers, etc. But in general, for the vast majority of events and developments, businesses can not influence the way they want but can predict, accept and adapt post factum, this is especially true for small and medium enterprises.

Business environment analysis is performed on three levels in order from the most general level to the most specific level: the general environmental level, the competitive industry (sectorial) level, the strategic group in industry level and the internal level of the enterprise. The more thorough the analysis and the shorter the time frame, the deeper we get into the details of the business environment. General environmental analysis focuses on events, trends and developments in the distant future and beyond the direct competition context of the business. The next step is to analyze the competitive (sectorial) environment directly, i.e. the area in which the business is operating, the events and the current and future scenarios related to the development scenarios of the industry. The final step in analyzing the external business environment is analyzing strategic groups, focusing on current developments and the competitive behavior of players within the industry with the same business tactics and model of operation.

Factors in the *general environment* often have a long-term impact on the competitive environment and the internal environment of the business. Businesses often have little or no control over these factors and often depend on them. The not enough attention attached to analysis of factors in the general environment and its evolution is the cause of failure and collapse of many domestic and foreign enterprises. Pho24 is an example of a Vietnamese brand that has been unsuccessful in developing the domestic market and conquering overseas markets, as it does not thoroughly analyze the factors of the segments of the overall business environment. Fiat, an Italian car brand, Deawoo, a Korean car brand after many years of operation in the Polish market, has closed down due to a lack of thorough analysis of its car related needs and preferences of the indigenous people, making a series of business decisions that had lead to huge losses. The extent and nature of the impact of each factor of the general environment depends on the sector (e.g. the education sector or consumer goods retail industry) and each type of enterprise (e.g. large, small and medium size enterprises, micro-enterprises). For example, the trend of population aging in developed countries, and more recently concerning China, and possibly Vietnam, will have more impact on the education sector than on the retail sector. The fact that less and less students enrolled per year, will seriously affect the quality and the competitiveness of universities. In Poland, it is estimated that until 2017, public universities will no longer be unavailable for full-time students. This is a huge risk and challenge for private schools operating for profit based on tuition fees that students pay. They have to improve their quality, training programs and add value to students so that they still want to pay tuition instead of free education in traditional public schools. Big businesses have much more economic power so they can withstand the shocks, such as the 2008 economic crisis, coming from the general business environment, rather than small and medium businesses. In the past, a number of small and medium enterprises were forced to dissolve due to the unbearable pressure of competition as customers' demand declined, while this was an opportunity for large enterprises, such as Vinamilk (the biggest Vietnamese dairy company) which has been reformed and restructured to improve efficiency and re-assert its leading role in the domestic economy and the world market. Next, each factor can directly or indirectly affect the business. For example, education reforms in Vietnam face many shortcomings, which are not directly related to Vietnamese enterprises, but in the long run, the shortage of high quality human resources with sufficient competencies and quality in the country will reduce their competitiveness compared to foreign firms. Vietnamese businesses will have to recruit foreign personnel in key positions at a much higher cost, as the remuneration packages must be in line with international standards and the need to adapt them to the cultural environment and the specificity of Vietnamese language with the greater risk of failure incurred not only within the scope of international recruitment problem. The following is a segment map of the general business environment.

llustration 24: Structure of general business environment



Source: Own development

The purpose of general business environment analysis is to understand the structure and nature of the events, trends, events, and stakeholder groups who play a very important role in the business, but their impact is not so clear and obvious. Depending on the size, the field of operation and the variety of products and services of the business, depending on the need for professionalism and details, depending on the ability to pay for analytical-diagnostic-counseling services, the scope of the general environment may vary from the perspective of time and space. For example, for Matsushita Japan's international corporation, the acceptable period is a century and the spatial extent of the geography is the global economy, not excluding any country or territory as a basis for referential analysis of the general business environment. However, for one noodle soup shop in the center of Ho Chi

Minh City, the one-year period with events and developments in it and the geospatial sphere includes customers coming from districts and suburban districts are sufficient. We will focus on analyzing the segments of the general environment for businesses operating in the country over the past year. For each segment of this general environment, we must list the factors, facts, events, and objects that our subjective judgments are important and have the greatest impact. Then we analyze the direction of their impact, both positive and negative, for the business activities in particular and for the industry in which the business is operating in general.

3.6.3 Segmentation of general business environment

Macroeconomic segment

GDP growth rate, GNP 6-6.5%: Such growth is moderate, reaching the target set earlier this year amidst the world economic difficulties and instability such as the growth of the economy of China decelerated to 7.3%, growth rates in India and Brazil also have cooled down, riots in Ukraine and Russia in downturns as next year's outlook growth will be negative as the main reason is that crude prices have fallen 50% in six months. By the end of 2014, the overall economy of the EU as a whole is not growing or just over 0%. The United States alone has maintained a 3% growth rate, an impressive number for the developed economies and the leading world’s economy. This growth rate will help Vietnam's economy recover and domestic businesses will regain momentum in the coming year.

Interest rate 6-7%: Compared with the previous interest rate, the current interest rate with the downward trend will be easier for business enterprises that need bank loans. Maintaining such interest rates over a long period of time has demonstrated the macroeconomic stability of the domestic economy not affected by outside shocks as before.

Exchange rate with 1USD = 22,500: The exchange rate has been stable for a long time, creating a balance for the economy and import-export businesses. The USD exchange rate has slightly increased but not significantly because the oil price in USD has fallen and the USD appreciates against other currencies in the world such as EURO, Russian Ruble, British Pound and Japanese Yen. The reduction was from 15% (EURO) to 50% (Russian Ruble) against USD.

The international balance of payments: Trade deficit has decreased in import-export turnover with other countries in the world, but increased in bilateral trade relations with China that government has not found any counter-measure. Not to mention the problem of trade blockade between the two countries through the small unregistered quota to cause huge deficit to the state budget. This will have positive and negative impacts on certain businesses.

Inflation at 7-8%: The stable and tending-to-decrease inflation rate is reasonable, slightly above the interest rate of the bank, which will help the economy to have clear and positive directions in the coming years.

Unemployment rates: There is currently no official figure for unemployment, as many freelancers are like small business households, their monthly average income may outpace the income of cadres, civil servants and officials.

Taxes (income tax, value added tax and consumer tax) and tariffs. Due to commitments made by the ASEAN Economic Community (AEC) in 2015, tariffs will be gradually reduced down to zero to create a level playing field for domestic and foreign enterprises. Depending on the competitiveness of each business this can be a positive or negative trend. In terms of the strength of Vietnamese businesses, this trend will initially create certain challenges but in the long run Vietnamese businesses and consumers will benefit from this event. The current income tax is still not fair and there is no progressive taxation as in developed countries (the higher income the higher tax income). The policy of tax exemption and reduction for poor households is still inadequate. There are no severe penalties for tax evasion such as existed and obligatory in other countries. The VAT rate of 10% is lower than that of other countries, this is reasonable to raise domestic demand. Different tariffs should be applied to different types of goods and services.

The stock market and real estate market: The tendency of these two markets, the two main investment channels of the majority of people in Vietnam, are still uncertain. The popular low-end real estate segment with 30 trillion VND state stimulating package alone has some outstanding highlights.

Policy and legal segment

Laws: The legal system of Vietnam are gradually stabilized, but there is no lack of overlapping regulations that make people questioned, investors hesitant and afraid. The stability and equity of the law are uneven in all sectors of the economy. For fast-growing industries such as science and technology, e-commerce, legal documents are not able to keep pace with the unpredictable developments in the market.

Domestic policy-relatively stable despite some difficulties

In terms of socio-economic development-aiming at ensuring social security despite the low living standards of the population. In 2015 the minimum wage was increased by 15% for the private sector and FDI sector first. Pay rise is unequal and is depending on each region. As a result, people's real income had increased as inflation was well below the double-digit level. The gap between the rich and the poor is increasing, led by Hanoi and Ho Chi Minh City together with other industrial provinces such as Hai Phong, Binh Duong, Bien Hoa, and Da Nang.

In terms of monetary and fiscal policy-monetary and fiscal policies have been achieved but certain successes in curbing the inflation and stabilizing the macro economy need to be promoted in the coming years.

In terms of budget and expenditures-the budget deficit is still at acceptable levels, but it is advisable to organize the list of revenues and expenditures according to international standards so that there is a basis for comparison with the level of deficit of other countries around the world to make reasonable adjustments.

Foreign policy-foreign policy is expressed by openness, integration, equality, and encouraging the growth in trade and investment. With such transparent and flexible policies and with appropriate joint venture models in terms of benefits for both sides (foreign and domestic company), it is hoped that, along with the other advantages of the economy, that Vietnam will be ideal destination for domestic and international investors.

Socio-cultural segment

Values, norms, perceptions, and prejudices related to morals, aesthetics, lifestyles, and occupations-values, norms, perceptions and prejudices and other pure Vietnamese elements are difficult to replace. They have been formed for many generations and have been ingrained in the minds of each Vietnamese generation. They impact in a slower, more profound, and in a longer term way to our daily lives than other factors. Foreign companies operating independently or in joint ventures with domestic enterprises need to carefully study the above factors in order to thoroughly understand Vietnam's customers and Vietnamese market before making strategic business decisions that have a long-term impact on the profitability of the business. For this reason, McDonalds' has been slower than its rivals in size (KFC, Burger King) in the process of penetrating the beverage and fast food markets in Vietnam. Such slow pace will bring the advantages and risks that McDonalds' had calculated and weighed in more than a decade.

Customs, habits, traditions-for the rapid change in today's economy and society, the cultural development and the importation of Western or even neighboring values like Korean, the question is whether old customs, practices and traditions should be preserved. Some customs, practices and traditions should be abandoned because they are really obsolete and no longer appropriate. Some should be kept, cultivated, even developed because it represents the cultural identity of the Vietnamese nation. The tourists visiting Vietnam very respect them (the customs of the ethnic minority in the Central Highlands, North West, South West) and those are factors that attract tourists to generate significant income for local budgets and jobs for some segments of the population. A number of customs and practices should be integrated into the global culture to create a unique character that unifies and favors the integration process and facilitates the import of Vietnamese values by other countries.

The interests and priorities of society-along with other rising countries, the important role of the middle class is increasingly confirmed. They are young generation in the upper middle classes of the society, they have a rather high average income and are bold in spending, and often pioneered not only in the use of new technology at work, at home to live and entertain, but also in discovering and implementing new business ideas, sometimes boldly. As a class representing a modern society, their concerns and priorities are the concerns and priorities of the whole of society.

The level of awareness, people's knowledge-the level of awareness of Vietnamese people is currently low, even lower than that of most countries in ASEAN region, especially the labor discipline is not very strict, low labor productivity makes the economy difficult to promote the existing advantages. Moreover, the foreign languages proficiency of Vietnamese is considered by some to be far from other countries in the region as they consider English as the second official language in administration, such as Singapore, Malaysia, Philippines, and India. Accompanying this is the low level and low quality of especially tertiary education, which is a barrier to Vietnam's international economic integration and the barriers to seeking better career and investment opportunities for Vietnamese individuals and businesses.

Scientific and technology segment

The segment of the scientific and technological environment, as opposed to the cultural and social segment, is a very dynamic one due to the rapid development of science and technology and the sprint of the technology giants such as Apple, Samsung, Intel, Microsoft, Oracle. in the field of research and development to improve and shorten the life cycle of technology and products as an inevitable effect. This segment contains many opportunities and unpredictable threats to businesses.

Depending on the field of science and technology and specific industry, the impact and level of investment required may vary. High-tech industries such as informatics-telecommunication, bio-medicine, energy require expensive equipment and facilities, colossal investment in research and development to keep pace with trends and developments in the world. While traditional technologies such as food, textiles, and animal husbandry are not growing at all, they do not need to be invested at such high levels. However, firstly, due to the global impact of information and communication technology, secondly, due to the tendency of integration and association of both high and low technology and the advantages gained from the application of science technology in the traditional industries to increase productivity, automation to avoid the use of precious human resources, some traditional industries also take breakthrough development. The Netherlands has a limited area and is generally situated below sea level, but its agricultural output and food processing industries can be used to feed all countries in Africa. This is a testament to the role of science and technology in the development of such a long-standing industry.

Government interventions and priorities-science and technology is the driving force for developing and enhancing the productivity and competitiveness of businesses and the economy as a whole. Government interventions and priorities through specific policies to optimize national technology capacities based on measures such as technology transfer, research and development cooperation aim to promote the key industries. With the increasingly important role of information and communication technology in the development and growth of the global economy today, the state has already issued policies, priorities and developmental solutions to create more breakthroughs and new triggers for the economy trapped now in the lower middle threshold of income.

Natural and demographic segment

Total population, rate of decline, natural birth rate, and life expectancy-total population of Viet Nam has exceeded 90 million people, ranked 13th in the world and is one of the top places of world in terms of the proportion of the population on the territory. Vietnam has a relatively young population, and is still in its golden age. Vietnam's population is expected to increase and by 2050 it is expected to be over 125 million. Life expectancy of Vietnamese people is of the world average and is expected to increase as the economy develops and the living conditions of the people are improved. Natural birth rates in large cities are not high (from two to three children per family), high birth rates (counting from five to ten) are still occurring in remote mountainous areas and countryside where most people are living on agriculture, livestock farming and aquaculture. With the pace of economic growth and increasingly high living standards, the cost of raising a child is also sky-rocketing, especially in biggest cities, which makes birth rates declining. Demographers have warned of the end of the golden population and hidden money risks if at this stage government doesn’t take advantage of it to drive the economy out of middle-income trap.

The structure of age, gender, ethnicity, occupation, income-currently in terms of age structure, the young and middle-class still make up a large proportion of the population structure. But only about 20 years later, this structure may change to the disadvantage. Only in the past 10 years, the proportion of women is still higher than men, but due to the economic development and the pressure of having a son to succeed parental business, couples are seeking sex selection for fetuses. There is a need for more aggressive government policies than the current prohibitions. The majority of Vietnamese are Kinh people, and there are 53 other ethnic groups in the territory of Vietnam. About 70% of the population lives on farming. However, this rate is declining due to the tendency of young rural people to leave the countryside to study at universities and work in factories at industrial zones, export processing zones in provinces such as Binh Duong, Dong Nai, Bac Ninh, and Hai Phong. That fact supplements the shortage of workers in big cities. Income per capita in Vietnam remains low (approximately 2,200 USD per year or 6,000 USD per year in terms of purchase of power) in comparison with other countries in the region and in the world. In major cities, the economic drivers of the country, income is higher than the national average (such as Ho Chi Minh City with a per capita income of no less than 5,500 USD per year) with a tendency to rise sharply in the future.

The level of people's knowledge and labor mobility-the level of people's knowledge and even professional qualifications in Vietnam, as mentioned above, is not so high, so Vietnam is still in a dual state of labor surplus and shortage. On the one hand, there are plenty of low-skilled or unskilled workers who need to be retrained to be able to work and, on the other hand, we lack highly skilled workers for appointment to management and specialized positions. Vietnam continues to export labor to more developed countries for the sake of individual livelihood, but also for the purpose of learning and improving the skills needed to return to work at higher position in the country. A few foreign experts come to Vietnam to work in key positions, but the country and local businesses are not financially able to recruit such a large number of senior staff.

Geographical location, climate, landscape, resources-Vietnam is a marine nation, geographically diverse, very favorable for the development of tourism for its mild climate, natural and beautiful landscape. It has rich natural resources, including strategic commodities such as oil and gas, not to mention the resources deeply situated in the East Sea which have not been exploited. With a strategic geo-strategic position stretching along the East Coast, where 40% of the goods of international trade are circulated, Vietnam, especially the Southern part, is likely to reach and become the next Asian dragon. It is not unrealistic since in the past Saigon was named the Pearl of the Far East, when Singapore and Hong Kong then in the 70s and 80s were still small fish farming villages.

The degradation of the natural environment-this is a serious problem not only of Vietnam but also of all countries in the world. Development and economic growth pose serious implications for the ecological environment, such as environmental pollution, climate change, sea level rise, depletion of natural resources, deforestation and extinction of certain spieces of animals and plants. This is a problem that governments are very much concerned about. So if the for-profit businesses are against the interests of the environment, such as Vedan a few years ago, they will be condemned by the social community, customers who might boycott their products along with government's serious punishment. The bad reputation of businesses destroying the environment seems to leave a bad remark hard to fade and affect badly their reputation and image forever.

3.6.4 Analysis of general business environment

The general environment as mentioned above is divided into five subgroups, namely: the macroeconomic environment, the legal-political environment, the social-cultural environment, the scientific and technology environment, and the demographic natural environment. Elements in each of these sub-environments will have a positive impact (constructive influence) or destructive (destructive influence) on enterprises and their industry, with varying intensity. The intensity of these factors is constantly changing over time, even the direction of their impact can shift from positive to negative and vice versa. Even these elements can suddenly appear and disappear (when their influence becomes neutral and will no longer be within our sphere of interest in analyzing the business environment, Because we only need to identify the positive factors that are the source of new business opportunities that can be leveraged to enhance the competitive position and the negative factors that are the source of the risks that need to be coped with or avoided). It is important, however, to identify the neutralizing factors because at some point they may turn into positive or negative factors in a very complex, volatile and very unpredictable business environment as today.

The categorization of the general business environment into such sub-environments is only methodological and systemic approach serving as a rational basis for further analysis. On the contrary, in practice, it is rarely seen that a factor influencing a business's performance belongs to a given segment of the business environment. For example, bank interest rates can be considered as macroeconomic factors or subordinate elements of political or policy nature. Another example is the participation and equality of women in working relationships with business owners should be considered as elements of the legal or socio-cultural or even macro-economic environment because the labor market is also one of the important markets of the economy in addition to other major markets such as capital markets (financial markets, securities markets), commodity markets (goods and services, and real estate markets. The following is an example of an analysis of the general business environment, identifying trends and events in the sub-environments (general environmental segments) and their impact on some sectors in the economy.

Finally, it should be noted that the split of business environment into a general environment and a sectorial environment is also only of relative nature and contributes to building theoretical foundations and systematic approach to the domain of knowledge. In fact, for large corporations, like the Masushita mentioned above, or high tech giants such as Samsung, Apple, Microsoft, or car manufacturers such as Toyota, Mercedes, BMW, competing in global market, their suppliers are also large corporations such as Dell or Intel, their customers are big banks such as HSBC and Standard Chartered. Their influences could rival or surpass the influence of the macroeconomic or political-legal factors of a small country like Vietnam. Thus, in the international business the theoretical model that forms the foundation of the theoretical schools of the strategic management needs to be verified, adapted and changed to be more appropriate to the global business environment and such supranational economic entities.

3.7 Sectoral business environment

3.7.1 Sectorial business environment characteristics

The *competitive environment* (or sectorial or industry related environment) is also known as business sector, a certain industry. Basically, compared with the general environment, the competitive environment is closer to the business, so factors in it often receive direct attention and often are more to be considered in business analysis and in making strategic investment decisions. The difference between the general environment and the competitive environment is, in the essence, the following:

a) Scope of influence

The extent of the influence of a wide range of general environmental factors, with its macro characteristics, affects almost all business and enterprises in the economy. Whereas the micro elements of the competitive industry sector only affect those in the industry, most notably the customers and suppliers operating and cooperating with the business and competitive enterprises. In the industry for example, a supplier who for some reason discontinues cooperation with the business will provide opportunities for other suppliers or existing suppliers to increase their market share.

b) The nature of the impact

The factors of the overall environment affect the business in the longer term as trends in this environment take a long time to form and emerge clearly while they are very difficult to change, both in the direction and nature (e.g. the economic crisis of 1929, 1997, 2008, the tendency to use smartphones instead of desktops or laptops; the increase and simultaneous aging of the population in the world). Secondly, since these are all macro factors of the "far" external environment, they rarely have direct impact on business, but often impact through other factors (slowing GDP growth will first leads to a decrease in purchasing power and unemployment, which will make the general purchasing power and purchasing power of customers decrease, affecting the turnover and profitability of retailers. It would have a bad impact on the luxury import business for high-end consumers), which is different from the competitive environment (customers who make a loss will directly affect the revenue, profitability and liquidity of enterprises).

c) The rate of change

The rate of change of general environmental factors is often slower than that of the competitive industry. Competitors, suppliers can change and adjust product prices, models, styles, quality, distribution methods to match the competition and expected profitability. Unlikely, macro factors are certain long-term trends. If there is a change in direction, it also needs a relatively long time for enterprises to adapt in time if they are analyzed more thoroughly and more frequently.

d) Complexity

General environmental factors are often complex and difficult for businesses to recognize the presence and the impact of them. Moreover, due to their indirect impact on all enterprises in the economy rather than some enterprises in certain industries, enterprises often ignore them for subjective reasons (they feel that the analysis is not really necessary, and hopefully these factors will affect other businesses, other industries, not us) or objective reasons (there is not enough resources to carry out the analysis or these factors are already analyzed with sufficient level of detail by others).

e) Ability to control and adjust

Due to the fact that the nature, place of occurrence, conditions, magnitude and frequency of impact are entirely different between the two groups of factors. Competitive factors are possible to control, adjust and reverse than the general factors. In addition, events and developments in the general environment are a general vector of events and developments in competitive sectorial environments. Thus, in order to change the macro trends of the general environment, business enterprises must agree and reach a consensus to act in a consistent way. However this is unlikely to be true in a free and dispersed global economy as it is today.

Table 19: Comparative analysis of general and competitive business environment

Environment	Scope of impact	Nature of impact	Speed of change	Complexity	Control and adjustment
GEE	Broad	Indirect, Long term	Slow	Very complicated	Nearly impossible
GEE	Narrow	Direct Medium term	Quick	Relatively complicated	Possible

Source: Own development

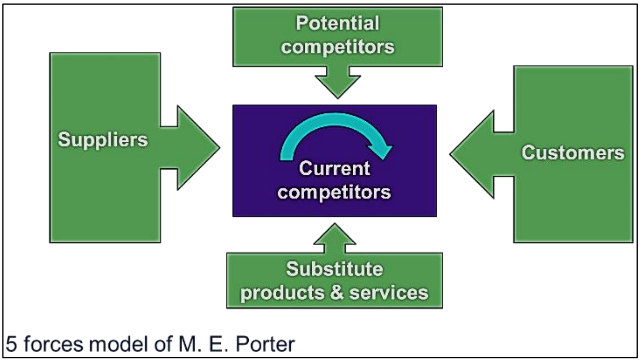
3.7.2 Porter's five force model

The first step in analyzing the business environment is to analyze the overall environment, which will give an overview of the factors that characterize the common business environment. The next step is to analyze the competitive environment (a given insustry) of the business based on the most widely used analytical model today, the M. Porter five forces competitive model. The five forces (or pressures) that shape the competitive environment are:

1) Barriers to entry into the industry
2) Suppliers
3) Customers
4) Alternative products and services (or substitutes)
5) Competition among competitors

These pressures will affect the cost of products and services, costs and scale of investment in the industry, which indirectly affect the profitability of the company. These five forces, according to M. Porter, will be decomposed into sub-variables for further analysis.

Illustration 25: Industry related competitive environment



Source: (Porter 1985)

3.7.3 Analysis of sectorial business environment

Potential competitors

Potential competitors are those who want to join the industry, whether they are startups or other companies for a variety of reasons that want to move into the industry. Potential competitors entering the industry often face some barriers to entry (entry conditions). These entry barriers will limit the level of competition in the industry. High barriers to entry, which would limit the ability of new competitors to attack, would mean a large investment of both physical and non-material assets to enter the industry (e.g. to establish a banking business a certain amount of capital is required). If the barriers to entry are low, the intensity of competition will be high and the competitive dynamics of firms from neighboring sectors or even unrelated sectors will be difficult to predict (e.g. The food industry is relatively easy, the capital needed to operate a business depends on the expected scale of operation). The following are some barriers to entry that are often referred to in the competitive environment analysis:

The size of the economy and capital requirements: Banking, finance and insurance, or industries such as aviation, oil and gas, and the car industry need a certain large amount of capital which is not the only requirements. Other indispensable factors such as personnel with appropriate professional qualifications, organizational management technology, support and relationships with local government are also necessary. In addition, for these kinds of the industry, the profit can only be achieved with a certain scale and after a long time of operation.

Brand strength and product differentiation: Market shares are divided by well-known brand names, certain loyal customer groups are difficult to penetrate (e.g. the cosmetics industry with the cost of branding and make a difference to the product is much larger than the cost of production). New businesses that want to join the industry must create a price differentiation as well as new attractive value to conquer and gradually attract customers on their side. However, this is not a sufficient condition and the current market moves are too risky. For example, in 1995 Quaker Oats launched a new brand called Snapple to attack the beverage market that belongs to Coca Cola and Pepsi. The campaign was unsuccessful and Quaker Oats suffered huge financial losses.

The cost of product or partner change: In the consumer goods market as well as the industrial market costs of changing suppliers is very expensive. Changing suppliers involves the lost value derived from the relationship with the old partner and the need to seek, negotiate terms of cooperation with the new partner, learn, accumulate experience and get acquainted with the new personnel. As a rule, businesses will not change partners without good reason and often contract them with long-term clauses and commitments.

Access to distribution channels: This is a very effective barrier that businesses, especially retailers of fast-moving consumer goods (FMCG) often apply. Supermarkets are an efficient distribution channel for essential consumer goods and tend to overwhelm traditional markets or other small business models.

Technology access: When companies succeed in building a network of copyrights protecting their technology, products, and markets from duplication by competitors, this is how they build barriers to entry in the industry. Intel holds the top spot thanks to a strategy to protect the technology of manufacturing microchips that make it difficult for other businesses to enter the industry.

Government regulation: The government can intervene to raise barriers to trade to protect the interests of producers and the interests of local and domestic consumers against certain damages caused by free trade. The government may prohibit the importation of a number of regulated goods for a variety of reasons such as quota restriction or public health. Russia has previously restricted imports of meat products from the European Union on the grounds that it does not meet Russian food safety standards, which are much lower and less restrictive that those of the EU. This is in fact the case of retaliation in trade and political relations between the parties. Vietnam has also banned the import of Japanese seafood due to the lack of sufficient iodine content for Vietnamese people (this is a real concern of the Vietnamese government). For people, iodine deficiency seriously affects health, while this is not a problem for Japanese people.

Other factors, such as the barrier to exit: The higher the barrier to exit as the assets of the business are more specialized, such as factories, manufacturing facilities, materials and equipment in certain technical industries making the business very passive when it comes to liquidation to move to other manufacturing businesses, in contrast to the highly flexible commercial and service sector where there are much lower barriers to exit. The barrier to withdraw is related to the next barrier, which is the psychological barrier. When businesses have invested heavily in high barriers of entry, they will be determined to stay up, maintain presence despite losses and wait for a chance to rebound. The following is the relationship between profits in the industry with barriers to entry and barriers to exit.

Table 20: Entrance and exit barriers

		Barriers of exit	
		Low	**High**
Barriers of entrance	High	Stable and high profit	Risky but high profit
	Low	Stable but low profit	Risky and low profit

Source: Own development

Current competitors

Increasing competition among companies in the industry threatens the position and existence of the business. Price competition will reduce the overall profitability of the industry and some of the weaker ones have to go.

When competitors are based on differentiation by creating new values for customers, then the demand of customers for the products of the industry will increase. This will benefit the parties. The following factors will increase (+) or reduce (-) competitive pressure in the industry:

The number and size of competitors (+): When number and size of competitors are large the intensity of competition in the industry will be high;

Industry growth rate (-): When the industry is growing competitive pressure will be less stressful, companies in the industry have more opportunities to enter the market and share market share due to demand for products and services in the industry increase;

High fixed costs and inventory (+): If the fixed costs and inventory are high, the company will have to increase production to minimize the average cost per product. The over-abundance of the product will lead to price competition between companies to boost sales.

Product differentiation and cost of conversion (-): If the products in the industry are not very different and the cost to switch from one product to another is not high, then the customer’s choice is based on cost leading to high competition in the industry.

High sector bets and retrenchment barriers (+): When companies are betting high on the sector, as the sector is of strategic importance to the company's continued development, or when the barriers to retreat are high due to the nature of the industry, as they are more determined to stick and will be more willing to compete on the basis of factors such as price, even quality.

Customers and suppliers

The pressure of suppliers and customers on competitors in the industry can be analyzed simultaneously by the elements of pressure that are similar and symmetrical in the competitive analysis model of Porter. Customer pressure is primarily related to price reductions and improved quality of products and services, which in turn reduces profit margins in the industry. The pressure of the supplier, on the other hand, is primarily related to the threats of price increases and the quality of the products and services they provide, which in turn can squeeze margins in the industry. The following factors will increase (+) or decrease (-) the pressure of customers and suppliers to existing competitors:

Pressure of customers

- **Number of customers (-):** The small number of customers would threaten the seller (industry) by putting pressure on the seller together.
- **Substitute products (+):** When the market offers more substitutes to meet the needs of customers, they have more choices and the pressure is more on competing enterprises.
- **Purchase volume (+):** When customers are companies, government or enterprises who buy too much, they will have the right to dominate and be strong in bilateral negotiations.
- **The product is different or important (-):** When the product is important and distinct, customers will find it difficult to find elsewhere, their pressure on the sales business will decrease.
- **The cost of changing partners (-):** When the cost for change the supplying partners is larger the enterprise will be afraid to change them, thus reducing the pressure on them.
- **Clients integrate backwards (+):** When customers can buy off or take over some parts of the supply chain they can be more proactive in negotiating terms, quality, price, location to get point and time of delivery more convenient. Thus, as the client integrates backwards, their pressure is greater.
- **Customer involvement in the cost of competing businesses (+):** The more customers have to bear the cost of providing the products their pressure increases to protect their rights and benefit them and cut the costs they have to participate in.
- **Customers have full information (+):** When there is sufficient information on market, supply and demand, real market prices, customers will have more advantages in negotiation and negotiation.

Pressure of suppliers

The number of suppliers (-): When the number of suppliers is small they would threaten buyers (businesses in the industry) by putting pressure on buyers.

Substitute products (-): The more substitutes on the market that meet the needs of the business to let them have more choices, the more competitive the supplier's pressure on the competitor will be reduced.

The output supplied by the supplier (+): If the supplier delivers the bulk to the competitor, not only that they are also main supplier of other businesses then they will have a power of coordination and strength in bilateral negotiations.

The product is different or important (+): When the product is important and different, competitive firms will be difficult to find elsewhere, the pressure of suppliers to the business sales will increase.

The cost of changing partners (-): The greater the cost for suppliers to change their purchasing partners, suppliers will be reluctant to change their counterparts to reduce pressure on them.

Supplier integration (+): When the supplier can buy off or take over some part of the supply chain, they can be more proactive in negotiating on conditions, quality, prices, place and time of delivery so that to be convenient for them. Thus, as the more integrated the supplier, the greater the pressure.

Suppliers' involvement in the cost of competing firms (+): When the suppliers have to bear the same cost with the buyer of the product from them their pressure also increases to protect their interests and cut down the costs they have to make.

Suppliers have sufficient information (+): When there is sufficient information on markets, supply and demand, actual prices on the market, suppliers will have more advantages in business negotiation.

Substitutes

Replacement products are products that are untypical for the industry but meet the same or similar needs, so they may limit the potential profitability of the industry when the price of the primary products increase, or decrease in quality. People then tend to use these alternative products. The following factors will increase (+) or decrease (-) the pressure of alternative products on existing competitors:

Price (-): When the cost of alternative products increases their pressure on competitors in the industry will decrease.

Quality (+): When the quality of alternative products increases their pressure on the competition in the industry will increase accordingly.

Replacement (+): When the replacement level of replacement products is high, their pressure on competitors in the industry will increase accordingly.

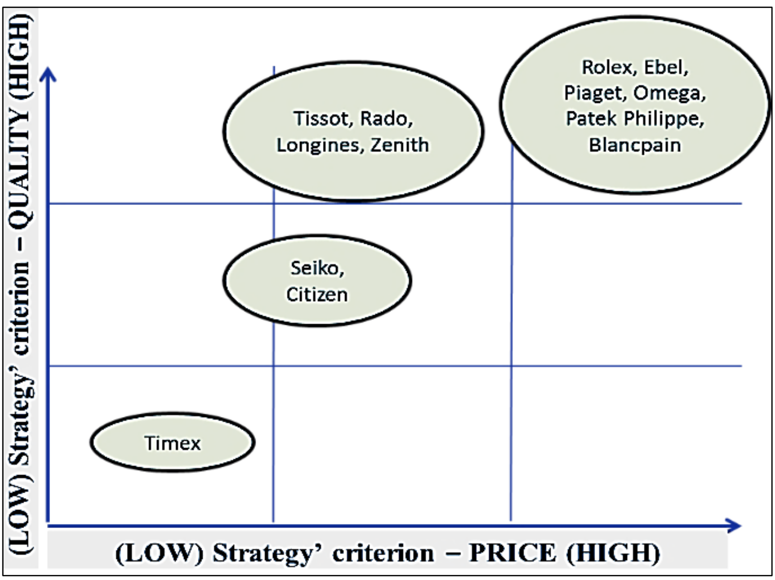
Porter's competitive pressure model is simple and useful, but it has the following limitations. First, this model focuses on the closest and most important business environment of the business that is the industry environment. In many cases, this is a very limited prospect, requiring further and broader environmental analysis with current economic, political, social, cultural and technological trends and events. Second, in addition to the simplicity and a purely economic perspective, emphasis has been placed on qualitative and quantitative conditions and constraints, subtle but important signals, hard-to-describe changes not seen in the model as they are not belong to the frame of the above five pressures. Third, this is a purely competitive model that is still meaningful in many traditional industries. But the current state of the world economy shows that strategic alliances and partnerships are becoming essential for companies to improve their competitiveness. As actors in the global economy participate, to a varying extent, in a series of collaborative and competitive activities, Porter's classic competitive pressured model must be complemented by new elements to fit in the new economic context and the current situation of businesses.

3.7.4 Subsectorial business environment

In general, the competitive environment analysis mentioned above considers all competing companies in the industry as equal range competitors. In fact, companies in the industry use different competitive strategies (with different strategic moves) and position their products or services in different market segments. Thus, it is possible to divide existing firms into different strategic groups (e.g. in terms of cost competitiveness, quality, differentiation or application of advanced technologies and management methods into the process of operating the enterprise). From the perspective of new entrants to the industry, as well as competitors developing their strategies, analyzing the competitive environment within their battlefields seems to be more important than the overall analysis of the competitive industry related environment. New entrants will analyze and consider whether they should join an existing strategic group or, possibly, with other companies to form a new one. This event may not be important and not worth the attention of competitors of other strategic groups. For example, if a competitor joins the low-end segment of watch industry, this is not a worry for luxury watchmakers of upper, high-end class such as Rolex, Tissot. Businesses who want to build a leading position should first focus on their strategic group before they want to take a lead in the industry. BMW (Bayerische Motoren Werke) has led a strategic group in the car industry, but for young and dynamic customers with good income, they prefer large engine and high speed. This has nothing to do with the strategy group of Fiat (Italy), Renault (France), Volvo (Sweden) and even Mercedes.

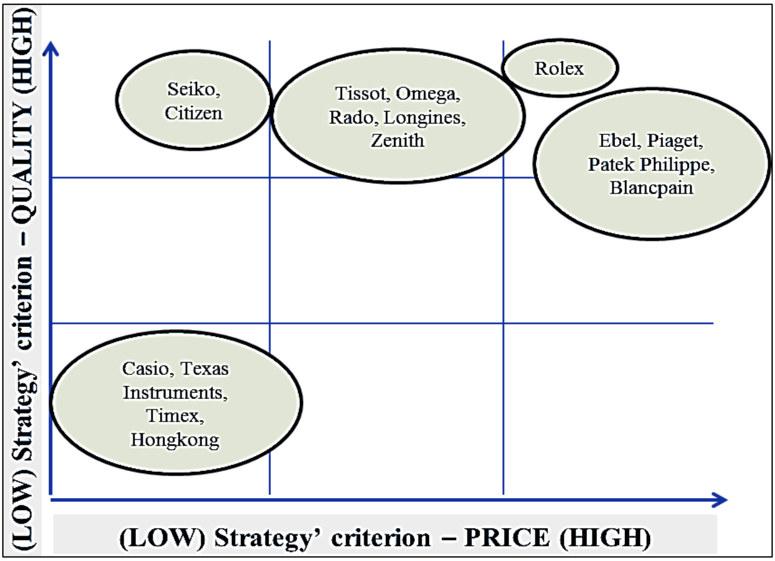
A *strategic group* is defined as a set of companies that share the same business strategy. If the "barrier to entry" in the analysis of industry is a key concept, the main conceptual analysis in the strategic group analysis is the "barrier to mobility". Mobility barriers mean that if a company adopts a specific strategy this fact entails certain specialization in terms of investment, application of technology, use of human resources. This will minimize the flexibility in response and in adaptation and will that cause certain constraints and limits for the company to move to another strategic group. Here are some examples of strategic clusters in the world of watchmakers in various decades (60, 70, and 80) that allow us to identify changes in strategic clusters over time and the process of determining strategic group in the industry.

Illustration 26: Strategic groups of world watchmakers in 60s



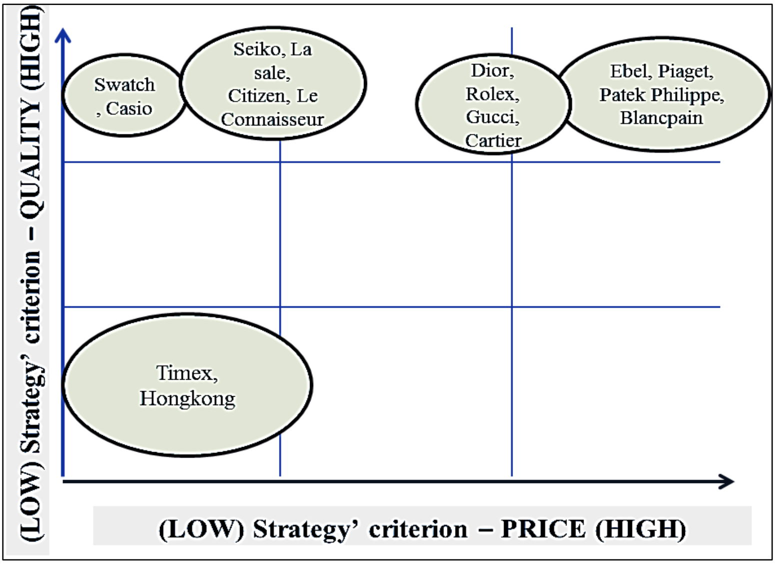
Source: Own development

Illustration 27: Strategic groups of world watchmakers in 70s



Source: Own development

Illustration 28: Strategic groups of world watchmakers in 80s



Source: Own development

For the watch industry as mentioned above, we see the main classification criteria are the quality and price. But for other industries, the main classification criteria are quite different, for example in the natural stone industry, they are the ability to supply materials and marketing strategies, but for business consultancy services, consulting firms and their customers are often concerned about the reputation of the company itself and the level of service standardization. The following is an industry related competitive analysis process that identifies existing strategic groups.

Illustration 29: Procedure of determining strategic groups

Source: Own development

The question posed by strategic group analysis is why companies operating in the same industry have different strategies (they belong to different strategic groups). First, decisions made in uncertain conditions at the earliest stages of business formation, crisis periods, or historical milestones will allow or require company to have different strategies depending on its own characteristics (such as financial strength, human resources, technology application, leadership, organizational culture, etc.). These strategies will shape the behavior of the business in the long run and form strategic teams in the industry. Second, corporate executives have different goals, appreciate different business values, favor different attitudes and behaviors (such as risk acceptance and financial loss). They will make different strategic decisions based on the same information that comes from competitive environment analysis. This will lead to the formation of differentiated strategies, distinctive differences and certain distances between strategic groups. The third factor that drives the formation and movement of these strategic groups is government regulations. These regulations are specific to each country. Through policy forms such as subsidies, preferential loans, the governmental protective regulations can stimulate the development of small and medium enterprises against monopoly carried out by large firms. Small and medium size companies form their own strategic groups because of their specific characteristics. Their operations are local oriented; their strategy is based on taking care of specific, narrow and selective customer groups.

The strategy group is the intermediate level in the analysis of the competitive industry environment and the strategic analysis of each company. On one hand, analysis of strategic groups allows us to analyze the limitations of each strategy and check its originality, whether it is copied from the strategies of other companies within a strategic group. On the other hand, strategic group analysis will most likely change the conclusions drawn from the competitive industry analysis. One of the assumptions of strategic group analysis is that companies within different strategic groups will adopt different strategies. These strategies will be maintained despite differences in profitability between strategic groups. This will limit the transition to another strategic group (where there is a greater profitability) in the industry as well as the mobility of new entrants into the industry. The purpose of strategic group analysis is to identify the variables that determine the barriers of mobility in the industry. These criteria are very different depending on the nature of each sector.

The second aspect of strategic group analysis is the identification of pioneering strategic groups, key strategic groups, and strategic groups on the sidelines. The following are the criteria to distinguish these groups: financial results, growth rates, and flexibility of the strategy. Financial results: most often, the leading companies will have the highest return and the margin companies have the lowest profit. Growth: Lamborghini and Ferrari have the highest profits, far better than Ford or Volkswagen. But Lanborghini and Ferrari are the car producers on the sidelines with almost no growth rate because if several hundreds or thousands are produced a year it is difficult to consume and that will lead to destruction of the luxury and superclass image and reputation. Depending on the strategy, businesses may face different opportunities and risks. The specific strategy will limit the business to a varying extent, including the ability to change strategy and move not only to other strategic groups, but also to other business industry. Sport cars like Morgan brand produced for the super-rich have low levels of strategic flexibility, as the demand for these product lines does not change with the ups and downs of the economy and its strategic advantages are based on advanced technology and rare unique image. Other models such as Fiat, Renault or Ford have to be more active in environmental analysis, changing the technology in order to find new marketing solutions to stimulate product consumption, continually compete for the market share.

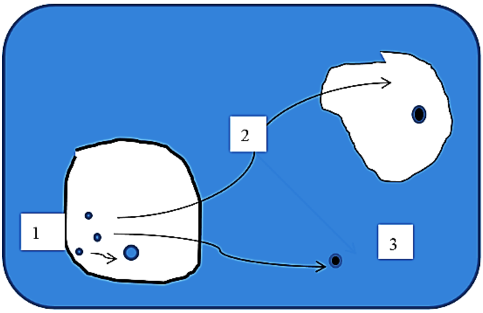
The third aspect of strategic group analysis is the identification of the possibilities for strategic transfer to another group of firms in the industry. Existing companies in the industry and new entrants to the industry have three options:

a) Increase the position of strategic group because not only companies compete with others, but also strategic groups compete with others in the industry. For example, manufacturers in the European Union are joining together to build standards for their products in terms of safety, price frames, colors, or designs to enhance the position of the group in the common European market.

b) Move to a better strategic group. Toyota, Nissan, Mazda within a few decades has shifted from the group of quality but cheap cars intended for middle-class customers (Toyota Camry, Nissan Maxima) to the luxury product line (Toyota Lexus, Nissan Infinity) often belonging to Mercedes, BMW, Jaguar with unique images and higher profits.

c) Withdraw from the existing strategy group and build a new one. Timex has built a new strategic group in the watch industry due to its innovation within the distribution system, so Swatch also combined sophisticated technology, design and price to such a level that it is immensely difficult to copy.

Illustration 30: Strategic moves in an industry



Source: Own development

In summary, the formulation and analysis of the strategic group aims to revise and review in more detail the results obtained from the business sectorial analysis. Strategic groups allow us to magnify the vision and look at the issue from a nearer angle than some segments of the business environment. Strategic group analysis will help managers focus more on the competition that takes place in the nearest environment, the environment of the companies that are most competitive by implementing the same strategy. For food businesses, the competitive edge of the restaurants across the street is more important than the discount, promotion and advertising of fast food chains such as KFC, McDonald's, Lotterria or Jolibee. So in the short run, competitors from direct strategic groups will need to be much more scrutinized. In the longer term, the shift between strategic groups and the entry of potential new entrants is meaningful. Small retail food stores, after a long period of time, may consider opening up a number of similar stores to form chains to compete with the fast-food foreign business and corporations being currently in the process of penetrating Vietnamese market.

3.8 Internal business environment

3.8.1 Business functions

An internal environment analysis of a business is a strategic diagnosis to answer the question: what aspect of activity (see the table of aspects in functional activities below) in the value chain of enterprise (see the value chain map of the enterprise in the value chain section) are important in the business environment that has been established to help businesses succeed in the long run? For example, aspects of functional activities may contain the strengths and weaknesses of the business.

Table 21: Business functions in enterprises

Marketing	Products and services-quality, price, prestige, level of market coverage
	Focus on products and customers
	Feedback system from sales
	Distribution channel
	Sales organization, promotion, after sales service
Finance and accounting	Financial and non-financial resources of the business
	Cost control - the ability to analyze milestones and minimize financial and non-financial expenses
	Scale and flexibility of corporate capital structure
	Capital mobilization costs (comparable to those of competitors and industry average)
	Creditworthiness in both short and long term
	Profit, liquidity, financial efficiency
Human resource	Qualifications and skills of senior management personnel
	Qualifications and skills of low and middle level management personnel
	The spirit and level of excitement of the employees (the common working atmosphere of the organization)
	The effectiveness of the mechanism of enlightenment (material and immaterial)
	Absences and personnel turnover; the level of loyalty of employees
	The quality and value of the information system of staff evaluation

Technology and production	Ability to provide input, quality of partners
	Efficiency of inventory control and inventory control, quality control in production
	Maximize production capacity, economies of scale and transport
	Material wear of the means of production
	The quality of research and development, the speed of deployment of new products
	Location of the business in the area
Organization and management	Company strategy and board quality
	Organization structure
	Organization culture
	Management procedures
	Degree of synergy effect

Source: Own development

The objective of the internal environmental analysis is to understand the competitive potential of business currently and in the future. The origin and foundation of this competitive potential are the resources and capabilities that, when comparing with competitors (see comparison of forces with competitors in table below) will determine the strength or weakness of the business on the market.

Table 22: Comparative analysis of own company and competitors

Functional areas	OWN Company	Main competitor	Compe-titor A	Compe-titor B
Customer care and after sales services		3	2	2
Marketing and distribution		2	2	2
Financial managment		4	2	2
Human resource		1	2	3
Technology		3	3	3
Production		3	3	4
Operation and management		2	2	2
Classification	3 (I)	2.57 (II)	2.28 (III)	2.57 (II)
Notes: 1. Too weak compared to us 2. Weaker than us 3. Comparable to us 4. Stronger than us 5. Too strong compared to us				

Source: Own development

The internal environment analysis, also known as corporate internal strategic diagnosis, is divided into the following stages:

Step 1: Research the strengths and weaknesses of business and compare it with the strongest competitors in the market.

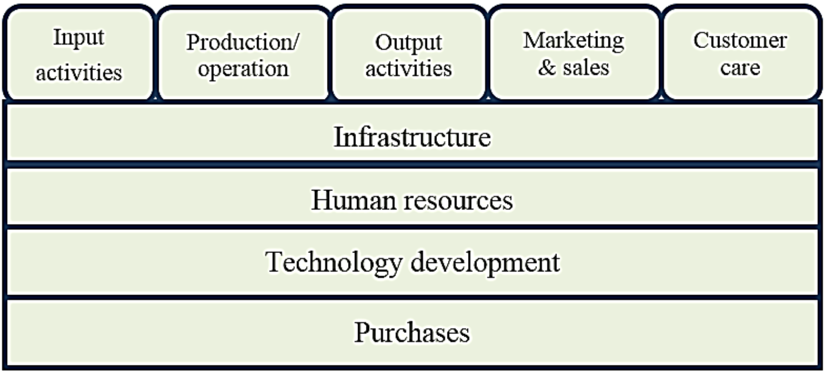
Step 2: Qualitative analysis of the causes and sources of identified strengths and weaknesses, particularly systematic causes (as a result of cooperation of activities with each other, the areas of operation and the processes that bring added value to the business).

Step 3: Analyze company's strategic resources such as resources that create distinct advantage over competitors, such as: patents, patents, trademarks, brands and close contact with local authorities.

3.8.2 Value chain

The concept of enterprise value chain has been mentioned and described in the figure above. Below, we will analyze and present each aspect of activities within the framework of value chain to identify the strengths and weaknesses of the business, thereby finding ways to utilize and overcome them in order to building sustainable competitive advantages. The value chain of a business includes functional activities such as inputs, outputs, operations and supporting activities for functional activities such as infrastructure, technology development and research and development (see diagram below). To classify whether a certain task or operation is related to functional or support, we should bear on mind that it depends on the vision of leaders, viewpoint of managers, accepted philosophy of business or the specificity of given industry.

Illustration 31: Value chain of enterprise



Source: Own development

Input activities

Input activities include purchasing, storing and managing inputs to production process such as raw materials, parts, inventory, machinery, equipment, spare parts, ancillary services, semi-finished products and energy. Effective management of inputs will lead to cost reduction and increased productivity (minimize incidents such as inventory, shutdowns, energy savings, and labor). The issues that the procurement department expects to pay attention to are:

- Type, quantity, quality, economic and technical standards, delivery time, minimum reserve level.
- The plan of organization and management right at the purchasing department.
- Business ethics and management of long-term cooperative relationships with suppliers.
- The ability to negotiate price and terms of supply.
- Diversification of supply sources.
- Link with suppliers (integration backwards).

Production operations

Production operations are responsible for transforming the inputs into outputs. These activities include: operating machinery, equipment, packaging, assembly, maintenance, inspection. Properly running these production processes will result in high quality products tailored to the tastes of the customer and respond quickly to market changes. Concerns of production operations include:

- Quantity and quality of products or services.
- The level of satisfaction of customers.
- Cost, and hence the efficiency of the business.

In order to monitor and control the operation of production, it is necessary to collect the following information:

- Information about the design of the production system and its operation.
- Information on the capacity, cost and cost of the entire system and the processes described above.
- Information on both input and output stock in the production process.
- Job description for each position in the production line.

Output activities

Output activities involve the delivery of products to the customer: stockpiling, warehousing, commodity management, distribution, order processing. Good implementation of these activities will lead to higher business efficiency and better customer service.

Research and development

Research and development is linked to and influences other key activities in the value chain of an enterprise. Enterprises, especially high-tech enterprises, often invest heavily in technology development to achieve long-term competitive advantage. This comes with certain risks due to: large and long-term investments beyond the control of the business, changing technology in the world, changing customer needs and tastes, the reaction of competitors in the market. Issues that businesses often have to deal with in research and development include:

- Cooperation and alliance in research and development at home and abroad.
- Technology transfer.
- Learn about new technology and the ability to develop new products.
- Training and attracting high quality human resources.
- The relationship between the cost of investment in research and development and the outcome/effectiveness of the business activity of the enterprise over time.

Finance and accounting

The goal of financial and accounting functions is to find capital for business development goals, effectively manage the portfolio, allocate and monitor the use of resources. The following are the topics of interest for financial and accounting functions:

- The rationality of the financial allocation to the department, project.
- The liquidity of the whole company and each functional division.
- Profits and annual dividends.
- The level of capital flow.
- Time to get a return on long-term investments.
- Effective use of leverage based on loans with different maturities.

- Compliance with the law on corporate finance activities, especially financial law.

Human resource management

Human resource management includes activities related to the following areas: recruitment, training, development, pay and insurance (social, medical, unemployment, retirement), maintenance the labor system (especially with the union department). Human resource management has a strong influence on all other core activities in the value chain. As a result, General Electric ranked human resource management in the list of supporting factors for the business rather than the list of key functional activities (see the following illustration “Value chain of General Electric Corporation”. Human resources are the key to change and adapt to the business environment because human resources are the main and active resource in all activities, not just business. Issues that need to be addressed and of interest in human resource management are:

- The appropriateness of the size and structure of human resources.
- Labor productivity and application of new technologies.
- Recruitment, training and human resource allocation.
- Develop and promote the capacity of each individual.
- Evaluation and policy on labor pay.
- Long-term attachment of employees to enterprises.

Marketing and Sales

These activities revolve around marketing mix, including policies and strategies related to product, place, price and promotion. Depending on the market and the nature of the product, these are also activities focused on market research and marketing research to develop specific marketing strategies in areas such as brand management and public relations, distribution and sales, advertising and promotion, after-sales service. In addition to the above policies, there are also activities related to the use of 4P marketing tools to implement marketing strategies that have been outlined in the marketing plan.

Service and customer care

These are the most important value-added activities of the company, with the motto “customers are first”, including the scope of work such as installation, training, repair, supplying components, solve complaints and meet customer requirements. These activities are very important to the purely commercial and service companies, who are constantly concerned about customer satisfaction for the survival of the business or who are the companies that launch products on the market for the first time.

Table 23: Value chain of General Electric Corporation-main functional activities

Input activities	**Production and operation**	**Output activities**	**Marketing and sales**	**Customer services**
Nearly Just in Time	High Quality. Super-modern technology. Modern factories. The effect of economic scale in production	Flexible supply according to customer requirements	Distribution network and agents are highly developed, keeping regular contact with customers. Granted to customers through GE Credit Enhance promotional activities with the use of NBC's own television channel	Convenient to use. Training services for GE customers

Source: Own development based on (Obloj 1999)

Table 24: Value chain of General Electric-supporting activities

Supportive factors	
Infrastructure	• The leader constantly supports the development of the company. • Pressure to become a market leader (number one or two in the global market). • The company's leader (Jack Welch) is determined in terms of economic efficiency and at the same time promotes the role of standards and values in GE. • Various fields of activity-jet engines, locomotives, air conditioners, radio and television broadcasting, financial leasing activities. • GGE-support the Group in expanding its activities to foreign markets. • The program is adjacent to the perfect leader. • The tradition of large and diverse corporate and group management methods and strategies (strategic planning, portfolio analysis, business unit structure)
HR management	• One of the best business schools in the world (in Crotonville). • Innovate and continuously train staff. • Deploy training programs to improve the efficiency of GE's operations. • The financial and non-financial treatment is both quintessential and simple.
Technology development	• Using the world's best technology for steelmaking, home electronics, jet engines. • Fully-managed laboratories that operate on the principle of commerce-emphasize applied works, collaborate with

	scientists, apply research results in schools. The software is designed to pinpoint software failures in assessing quality in the production of locomotives.
Suppliance	• Coordination and use of scale effects in supply, strict adherence to contracts with suppliers, continual downward pressure on prices.

Source: Own development based on (Obloj 1999)

3.8.3 Business crossfunctions

Organization culture

Organizational culture is a combination of values, beliefs, assumptions, symbols that are formed in the process of business development. One sees the importance of organizational culture in achieving competitive advantage because it affects choice of objectives, which is the foundation of strategic planning and implementation and business policy. Organizational culture is one of the most influential factors in the overall enterprise and is also the most difficult factor in corporate governance.

Leadership style

Leadership style has a certain influence on the formation and evolution of organizational culture. A new leader can completely change the culture of an organization, such as the style, orderliness, strategic thinking of the personnel in the department. Leadership, or leadership arts, is about sharing values, beliefs, and philosophies in business. In corporate strategy, it helps businesses and employees share their vision, development orientation and core goals.

Information system

The information system greatly influences the efficiency of all value creation processes in the enterprise, helping enterprises to enhance their competitive advantage. Information management activities relate to the management of information assets in the enterprise, in addition to human, physical and financial resources. Issues that need to be addressed within the information system are:

- The scope and value of information collected from information systems.
- The cost of managing the information system relative to efficiency in each functional division and the whole enterprise in general.
- Computerization, modernization and upgrading of information systems.

Public relations

Businesses can build relationships with government through such forms as PR, lobbying to gain certain advantages for their survival and long-term development. In addition, all sectors are more or less influencing the natural and social environment and subject to different forms of community and government control (e.g. the control of advertising integrity, control the level of impact on the ecological environment). In order to have good reputation and positive image, enterprises must strive towards the interests of the community and the interests of the concerned parties. The benefit of maintaining a good reputation is the support of the government, the consensus of society, the public opinion of the public.

General management activities

These are activities such as: reengineering, upgrading, improving operations and decision making in the enterprise. These are regular activities that take place due to the complex and unpredictable evolution of the business environment, both the general environment and the industry environment, which allows companies to optimize all links in the value chain to improve efficiency and increase competitiveness in relation to other competitors in the industry and neighboring sectors.

Chapter - IV

International Business Strategy

4.1 Corporate strategy

4.1.1 Essentials of strategy

Strategy understanding

The studies of business strategies focus on finding answers to important questions from the manager's perspective on causes and constraints to success and organizational failure. Even at the very difficult times of the global economy in the past few years, many businesses have succeeded and expanded their scale of operations, but some businesses have had to be dissolved and cease to exist. Given that at the most difficult times, the success and failure rate of businesses in the economy is 30/70, while the global economy was on its upswing as 10 years ago the rate was opposite, that is 70/30 The focus of business strategy researchers is on the causes behind the rise and fall of the business. These causes may vary depending on the size of each enterprise (large, medium and small enterprises), depending on the specific industry, and depending on the specificity of the enterprise itself and its geographical region and competitive environment. Why in the same industry, at the same time, in the same market, some companies are successful and growing strongly, while others are on the brink of bankruptcy? What actions does the company need to maintain its leading position (or just maintain its existing position) in the volatile business environment with increasing competitive pressures? How to develop and adapt new strategies to fit with existing organizational structures and operational processes? How to upgrade an existing strategy even at time when it is still effective and has no signs of the need for adjustment? To find out the answers to these questions, it is necessary to combine in-depth knowledge of organizational strategy with the practical and theoretical foundations of other disciplines such as economics, sociology, psychology physics, anthropology, etc.

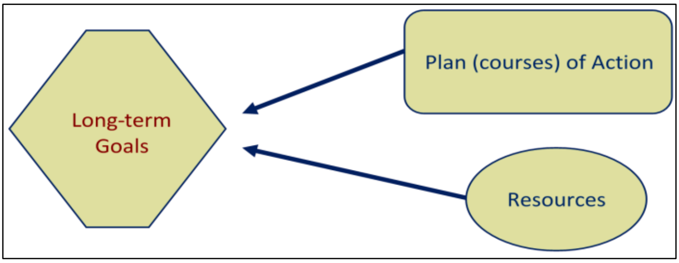
The term “strategy” derives semantically from Chinese, the main language of ancient Eastern civilization. Strategy means policies, measures (combats-Fá) with goals to control the battlefield (Battlefield-Zhan) to gain certain military competitive advantage to enemy. The term "strategy" also comes from the Greek, the main language of the ancient civilization of the West. "Stratēgós", in Greek, is the double word for "stratós" and "agein", meaning “army” and “leader, commander”. We recognize that, in ancient and medieval times, the strategy was mainly concerned with the field of military, military tricks and tactics to defeat invaders, to occupy new territories or to keep the country safe.

Strategy, as has been said above, is a term associated with military science since the ancient time, both in Chinese language (representing Asia, the Eastern world) and in Greek language (representing Europe, the Western world). It means the art of leading, conducting an army to defend the hometown, defend homeland from attacks of enemies as well as to conquer other cities and territories to expand living space of a certain nation. In contemporary time, relating to the business activities, business environment and business or even non-business organization, strategy itself possesses the two fundamental meanings. First, it is about deciding where an organization wants to go and how it means to get there. It is concerned with both ends and means (including resources and capabilities). In this sense, a strategy is an unambiguous declaration of business intent: ‘What we as an enterprise want to do in terms of serving the market and society and how we intend to do it in terms of what means to undertake and what kind of strategy should be considered to be developed there’.

Strategies define longer term goals of an organization, but they also cover how those goals will be attained. The second meaning of strategy is conveyed by the concept of strategic fit which will be discussed later. The focus is upon the organization itself and the world around it as we call the business environment. Strategic fit means in order to maximize competitive advantage, an organization must match its internal capabilities and resources to the external opportunities available in environment. So, a critical aspect of top management’s work today involves matching organizational competences (resources, capabilities and skills) with the opportunities and risks created by environmental change in ways that will be both effective and efficient for organization over time. Hereafter, several definitions and their illustrations are presented to reflect somehow the essence of strategy.

- Strategy is related with the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Chandler, 1962).

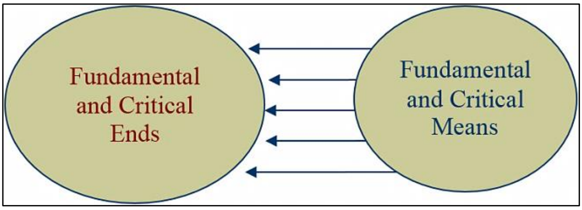
Illustration 32: Scheme of strategy's definition



Source: Own development

- Strategy is a set of fundamental or critical choices about the ends and means of a business (Child, 1972).

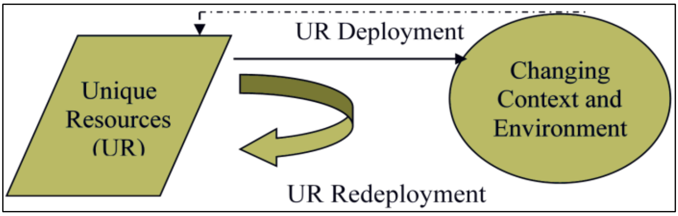
Illustration 33: Strategy as a set of choices of ends and means



Source: Own development

- Strategy involves the constant search for ways in which the firm's unique resources can be redeployed in changing circumstances (Rumelt, 1984).

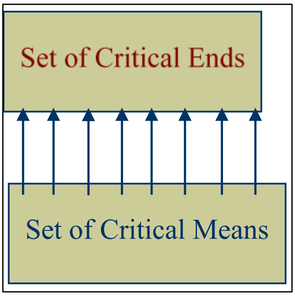
Illustration 34: Strategy as a way of resources redeployment



Source: Own development

- Strategy should be understood as a framework of critical ends and means (Boxall, 1996).

Illustration 35: Strategy as sets of ends and means



Source: Own development

- Strategy is concerned with the match between the internal capabilities of the company and its external environment (Kay, 1999).

Illustration 36: Strategy as a match between internals and externals

Source: Own development

- Strategy is with the emphasis focused on actions that differentiate the firm from its competitors (Purcell, 1999).

To be different from competitors!

The concept of strategy itself cannot be comprehensively understandable, so in order to get into its real essence this concept should be underpinned on a number of following associated concepts:

Competitive advantage

That is an advantage which is used to secure the existence of enterprise. Competitive advantage arises out of a firm creating value for its customers. To achieve it, firms select markets in which they can excel and present a moving target to their competitors by continually improving their position. Here are the two strategies that help them to do that (Porter 1985):

- **Differentiation:** Which consists of offering a product or service that is perceived industry-wise as being unique.
- **Focus:** Seeing a particular buyer group or a whole product market more effectively or efficiently than competitors who compete more broadly.

Sustained competitive advantage

That is an advantage which is used to secure not only the existence but also the development of enterprise. Sustained competitive advantage is the competitive advantage that competitors cannot copy or imitate (Barney 1991). Here are examples showing the difference in nature between competitive advantage and sustainable competitive advantage. Competitive advantage based on low price of Chinese products, that situation will not last forever; sustained competitive advantage guaranteed by high-tech sector, knowledge intensive and innovation based economy.

The competitive advantage may be obtained using three generic strategies (Porter 1985):

Innovation based strategy

1) Quality based strategy.
2) Cost leadership (low cost) strategy.
3) Nowadays, organizations often use a combination of three those strategy to maximize their advantages and minimize their downsides.

Distinctive capability

This is a capability that helps enterprise to retain its competitive advantage. Distinctive capability is the characteristics that cannot be replicated by competitors or can only be imitated with great difficulty. Reproducible capabilities are those that can be bought or created by any company with reasonable management skills, diligence and financial resources. Most technical capabilities are reproducible. Distinctive capabilities (existing in such areas as technology, innovation, marketing, quality, and making good use of human and financial resources) are used to keep and retain competitive advantage. The examples of them are: learning faster and applying knowledge, skills, expertise more effectively than competitors; core, unique competences in all areas that are superior to those of rivals. And criteria of distinctive capability are (Barney 1991):

1) Value creation
2) Rarity
3) Inimitability
4) Non-substitutability

Strategic capability

This is a capability that helps enterprise to keep and retain its sustained competitive advantage. Strategic capability is the leadership ability within enterprises to develop their strategies to achieve sustained competitive advantage that includes:

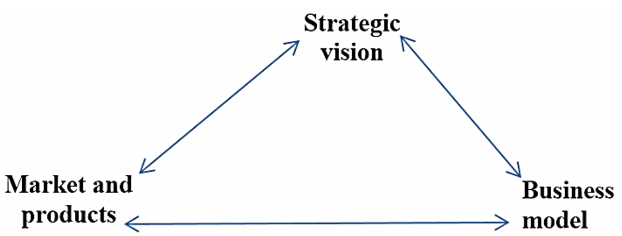
- Select the most appropriate vision
- Define realistic intentions
- Match resources to opportunities
- Prepare and implement strategic plans

Resource-based view

This is a business view that states that enterprise may develop advantage based on its distinctive and strategic resource. Strategic capability depends on resource capability. Firm is an administrative organization and a collection of people. Strategy is a balance between the exploitation of existing resources and the development of new ones (Wernerfelt 1984). Sustained competitive advantage stems from the acquisition and effective use of bundles of distinctive resources that competitors cannot imitate (Barney 1991).

In today's business world, strategies are a set of specific goals, and action plans that impact vitally the success or failure of the business. Strategies are questions that directly relate to the meaning of the existence of a company at present and its future long-term development prospects in terms of markets (customers and competitors), products (and / or services to serve and respond to customer needs), and the company's operating model (how the company's products and services are marketed to the potential needs of existing and potential customers). These statements are illustrated by the following figure.

Illustration 37: Strategic vision, market and product



Source: Own development

Today, the strategies, according to the most common definitions in management science, are plans and efforts to achieve (long-term organizational goals. In the changing, full of risks and unpredictable competitive environment of the twenty-first century, the following strategic concepts of M. Porter may be considered the most rational and timely:

- Strategy is the creativity in building a competitive position, based on valuable and unique capabilities that include activities that make a difference.
- Strategies are choices in competition because business cannot achieve all ambitious goals at the same time, mainly due to limited resources.
- Strategy is the creation of synergy between all functions and activities of the company.

In terms of feasibility, strategy is understood as its possibility to be successfully implemented to achieve certain objectives and benefits. Strategy can be divided into the following two categories, which are strategies in planning and the strategy implemented:

Strategy intended-those are the plans or action plans that the organization intends to pursue. It is accompanied with policies that include regulations and guidelines for implementing plans. For example, an enterprise intends to double its market share in the domestic market in the next five years. A business manager can propose a range of action plans with different levels of feasibility to achieve that goal: campaign to increase exposure and increase brand coverage, reducing costs and improving product quality make them more attractive to the market and more acceptable to consumers, the joint venture strategy with the other business to share resources to better compete with other competitors and share market share.

Strategy implemented-those are plans or action plans that the organization has approved and are being implemented. Strategies implemented include:

A part of the intended strategy that is implemented-including the most feasible and approved strategies to be implemented, such as existing strategy to double market share in the next 5 years when the market is in the period of strong growth.

A part of the intended strategy that is implemented after adjustment-including strategies that are modestly feasible and that the management has carefully considered to select out one of them to implement, such as the strategy of doubling the existing market share over the next five years when the market is in a stable and saturated phase.

Emerging strategies-opportunities that can be said to be "unexpected" and appear with lightning speed that businesses have to come up with appropriate strategies to capture them to create momentum for development in the future. For instance, oil prices have halved over the past few years which has made transport companies take advantage of this opportunity to invest in improving service quality while retaining the same cost making customers happy while using the service, especially in the road transport industry with the cost of gasoline occupying a large part of the total cost.

Strategic management understanding

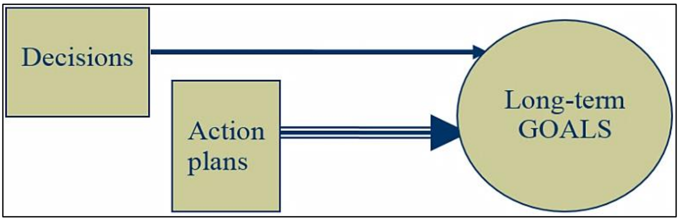
Strategic intent, strategic management, strategic goals and strategic plans are concepts that are inseparable from or even a part of the concept of strategy.

Strategic intent: Generally, strategy could be described as an expression of the intentions of the organization, what it means to do and how it gets from here, the presence to there, the future. Strategic intent refers to the expression of the leadership position the organization wants to attain and establishes a clear criterion on how progress towards its achievement will be measured. Strategic intent could be a very broad statement of vision or mission and/or it could more specifically spell out the goals and objectives to be attained over the longer term. The strategic intent has been defined as a combination of the following elements (Miller, Dess 1996):

1) Broad vision
2) Clear mission
3) Strategic goals
4) Concrete objectives

- **Strategic management:** Strategic management is the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization (Pearce, Robinson 1988). There are two views of strategic management:
- In assumption-focus is put on identifying the mission and strategies, resource allocation, goals execution.
- In practice-mixed, impure, interactive process, fraught with difficulties, both intellectually and politically.

Illustration 38: Model of strategic management



Source: Own development

Strategic goals: Strategic goals are related with the future place where the organization wants to be what it wants to achieve. They may be specified in terms of actions, quantified in terms of growth, or expressed in general terms as aspirations.

Strategic plans: Strategic plans are formal expressions of how an organization intends to attain its strategic goals. Strategies of firms are sets of strategic choices, some of which may stem from planning exercises and debates in senior management, and some of which emerge in a stream of action. The term that is close in meaning to the strategic plan is strategy formulation. It is a process for developing a sense of direction and ensuring strategic fit. It has often been described as a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization's intentions. The formulation of strategy can never be as rational and linear process as some writers describe it or as some managers attempt to make it.

Strategic management is the work related to the ideology, the work of thought, determination of directions, development of guidelines and policies of enterprises in the long term. Strategic management towards the long-term goals set by the organization is closely related to the above directions, guidelines and policies. It is not just business executives who care about strategic management but the state authorities, leaders at all levels of government, non-governmental organizations should possess fundamental and practical knowledge to understand organizational strategy. The work of strategic managers differs from the work of the rest of the managers, so they should not focus on specific issues or short-term goals but concentrate on strategic vision, a long-term perspective of business, and communicate it effectively to subordinates, executives, the entire community and other stakeholders. Strategic management, for a sustainable business, must always be based on the balance of benefits and interests of stakeholders and related parties within and outside the business, particularly in the business environment where new stakeholders can always appear and their influence on the business, whether positive or negative, is difficult to predict. For example, in the marketplace, with the rapid development of technology and the constant innovation of enterprises at all levels of industry, based on strong investment in research and development, the emergence of new products or substitute products will have a bad effect on current business output, as well as the appearance or disappearance of new competitors, suppliers, and new customers can happen with significant probability. The larger their scale of businesses today, the more attention they should pay to the sustainable development. This means that they must place their economic and commercial interests in the context of the community benefits, contribute positively to the building of values for the surrounding community, in line with the international corporate social responsibility (CSR) philosophy and practice. Next, strategic management must set its short-term goals and objectives in the context of long-term development. This means that, with the goal of sustainable business development and building long-term values for and relationships with businesses and stakeholders, the selfish group interests should not be put before the goals of bringing great value to the organization in particular and to the whole community in general. Within the enterprise, too, senior leaders can not be biased in relation to a particular department, for example regarding the issue of resource allocation and the fair and objective assessment of work performance and competencies. But if the development of that department (such as the marketing department) is actually tied to the development, the rise and success of business, in other words, due to the particularity of the industry (retailing consumer goods FMCG, for example), where marketing and market research always play the leading role in sales, profitability, and survival of the business. It is true that, while the whole company may be struggling to maintain the necessary level of operation, marketing deserves a lion share of general resource. Strategic management, in terms of the nature and purpose of management, must pay attention to the effectiveness and efficiency of the management process. Effectiveness is the fulfillment of the tasks assigned by the plan (due to the right thing). Efficiency is to do a certain job in the right way (do the thing right). Strategic management, like other management disciplines-marketing management, quality management, production management, financial management, human resources mana-gement, operations management, technology management, is a four-stage process: planning, organizing, motivating and allocating resources, controlling them to achieve their goals, and moving towards certain outcomes to be worth the effort and resources spent.

Strategic management, like many other management processes, is aimed at certain strategic objectives. Strategic management, as discussed above, is a process towards long-term goals, including helping businesses and executives:

To have clear vision, mission and developmental goals in the long term-this will enable the management staff at all levels and the entire staff members to understand the general mission and philosophy of the organization, to better align their jobs with the general direction of the organization, to approach and to solve problems appropriately at the present time and in the future.

To identify opportunities and good business strategies to adapt to the competitive environment. The key and critical task of strategic management is to analyze the business environment; identify opportunities and threats, and compare them with internal strengths and weaknesses to determine good business opportunities that will help develop effective business strategies and take advantage of the opportunities to increase the advantages and strengthen the competitive position in relation to the remaining competitors in the market.

To make strategic decisions that have positive influence on long-term competitive advantage-strategic management involves long-term decisions that affect the performance of the entire organization and its departments. These strategic decisions must be based on the full and accurate information that comes from analyzing the primary and secondary information of the business environment, both internal and external. These strategic decisions are vital to the business, so they need to be considered carefully avoiding the subjectivity before putting into practice. Once these decisions are sound, consistent with business practices and business plans, they will bring prosperity and development to the entire business community and the surrounding community. Conversely, they will put the business at a dis-advantage, dilemma, difficulty, even dissolution and breakdown, that are not desired things for business, community, all parties and stakeholders. Experienced, sensitive and inspirational leaders involved in the strategic decision-making process will significantly reduce these risks.

Achieving greater social and economic efficiency-businesses today cannot develop; achieve long-term and sustainable success if being separated from the surrounding socio-economic environment. Businesses need to come together, contribute useful values, pay attention to the interests, needs and expectations of not only the customers, suppliers and partners, but also the government, environment and community. If at least not against the interests of these interest groups, the business will receive their consensus, encouragement and support in achieving high economic returns and beyond. This proves the parallelism and inseparability of social and economic efficiency (prestige, level of support, trust and other intangible values) in business when it comes to developing and increasing the scale of activities once this is indispensable trend and a common desire and determination of business leaders today.

Strategic manager

As we all know, the term "strategy", in addition to its Chinese origin, also comes from the Greek, the main language of ancient civilization in the West. "Stratēgós", in Greek, is the double word for "stratós" and "agein", meaning "army" and "leader, commander". Thus, "stratēgós" is the commander of the army and presides over the construction of the methods of war design and winning strategy. The ancient Greeks believed that a military strategist was a very responsible and very important person for the survival of a nation. Military strategists need to know how to command and command their troops in the battlefield (leadership skills) in addition to having a practical and in-depth understanding of the battle situation (professional knowledge). To take on the task of entrusting, the strategist must first be a pragmatist and have distinctive political traits. In addition to the above intellectual and technical qualities, the strategist must have a certain stakes in the games. It must be the personnel objectively and thoroughly elected. It is understood that no one in the world is foolish enough to allow the military strategist to take the lead in defending the besieged city, if he is not a man of long standing and having family, relatives in this city.

Strategic thinking often refers to the long-term, critical decisions of responsible individuals who are competent and capability. Strategy also means alternatives, willingness, patience and determination of a person called strategist to pursue decisions to the end. In business too, the leader or strategist needs to be a long-term adherent, who has advanced through the ranks of the organization, has full credibility and is fully trusted by everyone within the enterprise. Betting in the game here must be understood in a way that business leader must have significant part and stake in the business he or she is operating. This is a key element of the individual's commitment so that the goals of the business are also personal goals of the leader and vice versa.

4.1.2 Strategic thought development

The concept and the rationale for strategic management is constantly changing because with new developments in the economy and in the business environment, there are always new competitive advantages and theories about them. With the development of theoretical foundations and the accumulation of practical experiences of strategic management, increasingly more conceptions of the new strategy are born. There is nothing wrong with each conception in the treasure trove of strategic management theory linked to the useful theoretical conclusions and useful lessons learned from the practice.

There are many schools of strategic management that coexist with each other or are in prevailing fashion with the theories that can be based as a basis for approaching strategic issues and competition in the enterprise. The following are a number of determinants that distinguish the content and analytical methods of the most popular schools, identified and applied widely in strategic management science:

a) Free and independent factors in management decisions

based on this factor, strategy can be understood through three ways. First, the strategy is spontaneous. In essence, strategy is the result of managers' independent choice and decision-making to grow their business and influence the business environment (intentional). Secondly, in shaping the strategy of senior executives, consideration must be given to constraints and limits that emanate from the business environment and must be adapted accordingly. This means that business leaders have a very limited influence on what goes on around them. So, in action and thinking they have to consider the particularity of the business environment, the events and the sequence of events that occur in it (halfintended). Third, the business environment determines the choices and decisions of business leaders. The strategy of executives in this case is dependent, closely related, and completely affected by the tendency of the business environment (unintended).

b) Strategic formulation

This element makes us feel the strategy in a different direction. Firstly, the strategy is formed consciously (based on reason and logic, with strong reasoning process), formally characterized by process (divided into successive stages), along with a wide range of organizational planning methods and techniques. Strategy, after implementation, must be strictly controlled in order to evaluate the results and effects achieved and adjust as necessary. Secondly, the strategy can be shaped by an approximate step-by-step approach, overcoming barriers and constraints, negotiating and compromising, conflict resolution, reconciliation and seeking consensus. So it is attached with low formality (informal).

c) The starting point of the strategic development process

This relates to the question "where does the strategy come from?". Convincing evidence can be found to assert that the starting point for strategic development is the ongoing competitive situation in the industry and the events and developments in the general environment (external). On the other hand, there is much evidence in business practice that the strategy arises from the aspirations, desires, and determination of the executives wanting to make certain plans in line with their aspirations (internal).

Strategy, in fact, is a series of questions and issues related to the general business environment, the industry environment (competitive, sectorial environment), organizational diagnosis, strategic options, program's activities development and the results are aimed at realizing the strategy. In strategic management, the doctrines and concepts of strategy proposed by the representative schools are based on very different assumptions. This difference is reflected in the above factors. Scientific content related to the concept of strategy of different schools (planning schools, schools of evolution, schools of positioning, schools of knowledge and skills) is discussed and compared in specific ways based on some of the comparison criteria are as follows.

Table 25: Comparative analysis of strategic schools

School criteria	Planning	Evolution	Positioning	Knowledge and skills
Start point of strategy	Top executives	Business environment	Business environment	Internal assets & resources
Features of strategy realization	High formality Strict Based on reason and logic	Random Lack of formality Lack of reason and rationality	High formality Sophisticated	High formality Creativity
Results of strategy realization	Strategy and suitable action plan	Self-triggered or half self-triggered strategy	Formula of success	Strategic resource and effective use
Flexibility Creativity	No	Yes, with social management skills	No	Yes
Time frame	Long term	Short term	Very short term	Long term
Control	Strict	Self-control		Self-control
Nature of business and business environment	Predetermined	Not predetermined	Complex	Complex Not predetermined

Separated planning and realization of strategy	Yes	No		No
Freedom and independence in decision making	Intended	Not intended	Intended	Half intended
Formalization of strategy	Formal	Non-formal	Formal	Half formal
Starting point of strategy	Internal	External	External	Internal

Source: Own development based on (Obloj 1999)

School of planning

The school of planning is the oldest school of management science. This school seeks the source of competitive advantage first in the skills of corporate executives to adapt to the harsh external business conditions (business environment, competitive environment). In the process of management, representatives of this school often formulate strategies based on analysis using very familiar SWOT matrix. Theoretical background of the strategic planning school was created in the 1960s by scholars and researchers in the field of management at Harvard. The theoretical basis of the planning school is based on the assumption that strategic planning is the backbone linking all activities of business and the foundation for organizing business operations. From the perspective of this school, the strategy is a set of planning decisions that ensure the fulfillment of the organization's goals in view of the particularities and constraints of the business environment both outside and inside the enterprise. The process of creating strategy (strategic planning) is formal, disciplined and based on logical arguments, so it is split into successive stages. The qualities and abilities of the business leaders, their thought and conception about the business and its competition play pivotal and key role. Business leaders have the power to make decisions that shape the future of competitive environment and the future direction of the enterprise. The outcome of the planning process is a highly feasible, ready-to-deploy, competitive strategy and action plan (who, what, how, where and when to do). This implies that the operationalization and decomposition of strategy are essential in the verification of its feasibility. On the basis of strategic planning, the first of the four functions of the management process, on the basis of the identification of objectives, the final function, function of control can be implemented to measure the attainment of declared objectives and the performance of strategy.

The strategy constructed on hypotheses of a planning school is of a somewhat outdated nature as it is based purely on logical judgment and reasoning, just as it is created mechanically (e.g. using machines with high computing power), rather than by human beings. Human beings, on the one hand, are living creatures of flesh and blood, but on the other hand, are complex in terms of psychological structure and social behavior. The process of planning and developing the strategy is conducted from the top down (mainly within the board) and completely isolated and separated from the rest of the enterprise. The crisis of faith, the lack of support, consent, consensus, and participation (feedback and reflection) of the remaining parties can be clearly seen. These stakeholders are not involved in the planning process, but they must adhere to and implement the strategies and plans proposed or even imposed by the board of executives. In addition, this type of planning is often a subjective process; the implementation of the plan involves a limited group of people seeking their specific interests and not representing the interests of the whole enterprise and stakeholders. Planning, in the opinion of scholars of this school, is cautious and reserved, guided by a long-term vision. Hence, it limits the flexibility in thinking and acting and increases the resistance to unavoidable changes once the constructed plan is no longer consistent with the ever-changing reality of the global knowledge based economy and the enterprise itself. Strict, rigorous control procedures, formidable analytical processes are essential and also an unmistakable mark of strategic planning that kills innovation, holds back the trend of risk taking and limits the ability to respond quickly to unpredictable changes in the business environment. The reality of today's business environment is that enterprise, the business environment, and therefore the process of strategy building do not necessarily have to be deterministic. From this we can see that the development of programs and long-term action scenarios is futile. In addition, the distinction between strategic planning and strategy implementation in the doctrine of the school of planning will be very damaging to strategic management practice, since the difference between the strategic planners and strategy executor are, in many ways, the driving force behind conflict and a drastic reduction in business performance by preventing learning activities; access to knowledge and experience of each other within organization, ignoring factors such as intuition, creativity and hunch. Thus, in order to limit the above weaknesses of the business from the perspective of the planning school, today's modern planning methods are based on multi-variable and repetitive projections (never-ending loop of forecasting, planning, organizing, leading and controlling). On the contrary, the positive side of strategic planning is that the process of defining goals, clearly separating the tasks of units in time and space, demonstrates a clear order and discipline which is really needed in the enterprise when a certain scale and complexity has been reached.

School of evolution

School of evolution proposes and favors the modes of incremental changes in strategy formulation understood as common and consistent pattern of decisions and actions. According to the scholars and representatives of the doctrine of this school, corporate strategy was formed at random, as a result of the subtle combination of many non-formal processes such as preparation, arrangement, prior agreement and intentional planning. Strategy is an arrangement based on negotiation, bargaining, confrontation, friction, and maintenance of the ways in which action and thinking, exploration and copying different solutions. The start of this evolutionary approach was in the 1960s and 1970s. The assumptions of this school can be summarized and presented as follows:

Managers seek information about what happens inside and outside the enterprise, based primarily on the channels involved and on the basis of non-formal relationships (oral stories, rumors, and informal numbers) that have been created and cultivated from the beginning. As a result, it is not necessary to depend on the existing procedures, processes and decentralized hierarchy in enterprise, managers still can manage effectively and develop adequate business strategies.

Thanks to communication channels and networks of formal and informal relationships ensuring objective and multifaceted sources of information that involve a variety of issues, and decisions that need the managers to engage in. So, the managers themselves are fully knowledgeable about the business and about the problems that are happening. The management skills in this case are highly dependent on the ingenuity and sophistication of choosing reliable sources of information and focusing on critical issues.

Managers and business leaders must be polite and efficient politicians. Corporations, especially multinational corporations are no different than small states with particular political and social systems, formal and informal structures of power, interest groups and intricate complexity characteristic of their own. These can positively impact or hinder any change. It is the skills and experience of political work that are needed to manage such a complex social system.

Managers cannot and will not necessarily determine for themselves and other parties accurate and long-term goals. Managers must give themselves a certain degree of freedom of action because of the rapidly changing business environment, and in the longer term the goals of the past will be unsuitable over time. From these realities, goals and strategies must be evolving slowly and gradually from the smallest decisions, the pieces of events, and the detailed operational activities.

According to evolutionary school, strategy is understood as framework of activities designed in a cohesive and logical way, formed and distilled slowly and continuously from the actual segments of the organization, through the following forms:

a) The mix of intentional and unintended actions, based on the evolution of facts, processes, habits, situations that are not subject to the influence of the leaders in enterprise.

b) Strategy is a spontaneous process that is strongly influenced by the business environment and leaves little room for business choices. In this case, managers pay more attention to the constraints and pressures of the business environment, try to adapt to the external factors, and flexibly manage the development process of enterprise to provide a consistent, effective and meaningful framework of actions that aims to achieve the goals. This involves the continuous adaptation and learning process at various organizational levels of in order to survive and develop in a new economic realm.

According to evolutionary schools, it is difficult to predict and anticipate anything, so long-term planning is unlikely to be accurate and useless. Instead, evolutionary scholars propose continual strategic planning based on experiences and experiments based on the principle of trial and error. Likewise, for the development of the strategy, managers do not always find available recipes for use. So, strategy usually is based on empirical experiences, situations, mistakes made, accomplishments, and rational analyses.

As explained above, the strategy by evolutionary school is the search for a common pattern or template that is appropriate for business activities. This template may be appropriate for a particular business at a particular time. However, if this template is copied and put into practice in a completely different business (or in another business location, business field) it will become very dangerous if not tested for usefulness in particular situation with specific operating conditions and changed to adapt to changing business environment.

School of positioning

According to the school of competitive position, the process of developing and implementing strategy of enterprise is strictly controlled, it itself is very formal and highly subtle. The origin of the strategy, from the perspective of competitive schools, is the external business environment of enterprise. Therefore, the choice, scope and level of independence of managers' decisions will be limited and confined. The starting point of strategic planning is the analysis of business environment. The academics of this school have created a variety of methods, techniques and tools to effectively analyze the business environment and diagnose the enterprise itself. According to this school, the nature of strategy consists in battle with competitors, the winning position and success in the marketplace. Competitive school of positioning is based on assumptions that the business strategy of the enterprise is dominant and related to the market and product, and formed at the level of the business unit.

In school of positioning, the process of developing a strategy must be understood as a process that builds a position and gains competitive advantage in the marketplace. This process must be formally and rigorously planned. However, the volatility and complexity of the scenarios significantly limits the cognitive ability of executives. Therefore, in order to diagnose and understand specific situations and conditions, managers must simplify the business environment, and they need models that reflect important aspects to focus on and ignore the uninteresting factors in it. The competition strategy of enterprise in this school includes the price leadership (allowing the management to have the freedom of choice that other parties do not have) and the differentiation (restricting the freedom of competition of enterprises, obstructing the counterattack of the opponent).

The purpose of enterprise is very pragmatic, it is to succeed and win the ware of competition. Competitive schools of positioning find the roots and conditions of success within the enterprise and in the competitive environment. Businesses go on to build upon the successful principles and formulas available. In fact, this is unrealistic in today's complex and turbulent business environment. Just like the assertion that competitive advantage can be achieved through two ways: minimizing costs and making a difference. The next issue of the competitive school is a very mechanical and short-sighted approach to the concept of success, because success is not necessarily synonymous with the market leadership. Success can be understood in many ways and each party or group of interest in enterprise can define the concept in different ways. Success can be understood from the perspective of social, financial or market factors, in different time and space. Success is felt differently when enterprise or business environment is in crisis, and completely different when the economy starts to prosper.

The perspective and time scale of strategy in the competitive school of positioning is of little change and short-term. The successful formula of the strategy will be very easy to lose its sense when the conditions and characteristics of the business environment change so fast. Shortening the timeframe will increase the sense for exogenic factors. The followers of competitive school, therefore, favor a logical and rational approach to the analysis and diagnosis of phenomena and problems instead of enhancing the role of perception, randomness, intuition and cumulative knowledge is needed in the context of a complex and volatile business environment. Because when things become too complicated, confusing, factors that have not been noticed by the school positioning will become increasingly important. However, competitive school provides researchers, consultants, and managers with effective tools, methods, techniques for business diagnostics.

School of knowledge and skills

This school places high hopes on the success of the strategy, thanks to the internal factors of enterprise. According to the approach to knowledge and skills, it is necessary to appropriately select the specific resources and capabilities of the enterprise to use them creatively and effectively in the decision-making process and developing strategies. Strategic development, according to the scholars of this school, is a process that is both formal and requires a creative attitude and thinking.

School of knowledge, resources and skills dominated the thoughts and conceptions of strategy in the early 1990s as it propose an approach to business as a set of strategic resources, and the foundation of business' success is defined as knowledge. In the 1960s and 1970s, this approach had not gained much attention, influence and resonance due to its value and usefulness has not been fully recognized by the scientific community. This is, in part, due to the characteristics of the business environment at that time, it did not require fundamental and radical changes in the organization and development of enterprises. In addition to the rigid strategies, mechanical rules, soft elements such as norms and values of intangible resources are also considered as potential sources of competitive advantage. To understand the origin of business success, it is necessary to understand the configuration of its unique assets (resources and skills). We are interested in invisible resources such as intellectual property (inventions, patents and copyrights), business know-how, and network of political-economic relations, knowledge, experience, prestige, brand and organizational culture. Skills are defined as the capacity to operate and effectively use existing resources (accumulate faster and use more effectively than other companies by focusing, connecting, coordinating and using them in the different purposes) to build competitive advantage at the enterprise level. The difference between enterprises, the advantage of some of these enterprises compared to others is inferred from the difference between the effective use of available resources. Knowledge and skills, these core elements, are strategic resources because:

- They are very valuable-allowing the company to be more efficient and more adaptable to the business environment.
- They are very rare-because not all businesses can own it.
- They are very difficult to copy-difficult to scale up for mass and widespread use, or looking for other resources to replace them.
- They are very difficult to put into operation and use effectively-they require the appropriate skills needed to exploit and use effectively.

In summary, for this school, the knowledge and skills (competencies and qualities) of executives will determine the performance of the business rather than the factors of the general business environment and competitive industry environment. Strategic planning is the strategic choices and decisions of executives at the enterprise level. Executives are responsible for the development of the business, visions related to the future prospect. Just like evolutionary schools, the process of implementing the strategy is not to be planned. In addition, it will be difficult and costly (in terms of cost and time) to form and deploy resources (such as product branding, customer loyalty, efficiency of distribution systems, efficiency of the work of staff) so that they become key and strategic factors for the success of the organization.

4.1.3 Corporate strategic orientation

Vision

Vision, the Latin name is "videre", meaning to see. Vision is the image, the unique and ideal image in the future of the organization, is the dream and aspiration that people want to pursue. Vision is the general concept of leadership and all employees about a distant future of the business. The vision connects people with the efforts, the burning aspirations, the inspirational surges and the common values that need to be communicated and shared within the organization. Vision is shared by the business leaders with the rest of company for a long period of time until there are landmark changes within the enterprise such as changes of the key part of the management structure and the ownership ratio of the shareholders (subjective factors) or evolution of the external environment (objective factors).

In 2008, due to the mutation in the business environment not only of the Vietnam dairy industry but of the whole domestic and foreign business environment in general, Vinamilk is one of the few enterprises that have decided to change their vision, and of course, the mission and goals, to make business more relevant to the evolution of the economy. The following are examples of the visions of Vinamilk, FPT and Saigon Tourist. FPT standing for "Financing and Promoting Technology", but a few dozen years ago FPT was also called "Food Processing Technology". Changing the name implies a tremendous turning point in the history of corporate development, which involves changing the competitive environment of the industry, leading to both a change in vision, mission and strategic goals.

Vision of vinamilk (before 2008)

"Vinamilk will concentrate all resources to become the fastest and most sustainable dairy and health food company in Vietnam by strategically building products with competitive edge in a long-term"

Vision of vinamilk (after 2008)

"Vinamilk wishes to become the number one trust symbol in Vietnam on nutrition and health products for human life"

Vision of FPT

"FPT is looking forward to becoming a new, rich and powerful organization by working hard to innovate in science and technology to satisfy customers, contributing to national prosperity, giving each its member the conditions for developing the best talent and a life full of material, mental richness"

Vision of Saigon tourist

"Become one of the leading tourism brands in Southeast Asia, enhance the image of Vietnam. To develop, in line with trend of integration, sustainability, enterprise efficiency associated with indigenous cultural values, community benefits".

Mission

While vision is a very general concept, lacking in concrete and explicit character, as it represents only a dream and an aspiration for the enterprise to rise, the mission raises the reason and the meaning of existence, activity and development of the organization (for who, for what?). Mission is the specifics of vision, because it clearly demonstrates the beliefs and directions toward the defined vision. Mission is also a guideline, purpose for functional activities, and the performance of tasks of each department in the business. Next, the mission is further specified by the corporate mission statement to the society, to demonstrate in a convincing manner the usefulness of the company to the community, and to create positive image for the society and related parties. The following are examples of the mission associated with Vinamilk's vision before and after 2008 and of FPT Information System. Saigon Tourist and Vinamilk are businesses operating in a certain business field. In the case of Saigontourist, it is a restaurant, hotel, travel and other entertainment services. In the case of Vinamilk, it is the production, trading, export and import of dairy products and related to milk, while FPT is a multidisciplinary group with diversified business strategies. Unlike the vision that expresses the aspirations of the company, each of FPT's subsidiaries has its own mission in line with the business field and business activities.

Mission of vinamilk (before 2008)

"Vinamilk is constantly diversifying its product lines, expanding its distribution territory in order to maintain its leading position in the domestic market and maximize the benefits of its shareholders."

Mission of vinamilk (after 2008)

"Vinamilk is committed to providing the best quality nutrition community with respect, love and responsibility to human and social life"

Mission of FPT information system

"FPT Information System Joint Stock Company is looking forward to maintaining the position of system integrator, software developer and IT services leader in Vietnam, to bring each of our members a life full of material, spiritual enrichment, bring about success to customers, partners, and contribute to the community development"

Mission of saigontourist

"Maximize business efficiency, giving customers experience through the unique product line, service chain containing cultural spiritual values with international quality; promoting image, traditional essence and Vietnamese identity. Maximize the synergy from the main activities, contributing to the development of tourism in Vietnam to reach to new heights"

Mission statement

The mission statement relates to the role and status, usefulness and meaning of the company to society. In essence, the mission statement of the company is focused on clarifying a very important issue, which is the purpose that the business of the company is aimed at. So, it is possible to say that the mission statement itself shows the meaning of the existence of an organization, the things they want to actualize, the kind of business they would like to become, the customers they want to serve, and the ways in which they operate. Therefore, the mission statement must address the following: product, market, customer, technology, core values, methods and philosophy of business operation as a basis for the selection of goals and targets; the implementation of future strategies. Given the nature and importance of the mission statement, it needs to be carefully drafted as an important message to all parties. Here are some key requirements for the mission statement and the basic contents it must contain:

- Internally, the organization's general purpose must be clearly defined.
- The basis for mobilizing and creating atmosphere conducive to the allocation of resources.
- Facilitate the transformation of goals into appropriate objectives and objectives into specific strategies and programs of action.
- The scope should be not too broad because it will overlap with the vision, not too narrow because it will overlap with the common goals and specific objectives of the business.
- In terms of content, it should be clearly oriented to guide the implementation of specific objectives.
- Customer orientation that is the meaning and benefits of products and services offered by the company to customers and related objects.

Based on the above contents, we see the mission statement of the enterprise in a very detailed and clear way in order to set direction for current operation and development of the business in the future. The mission statement is intended for those who are more interested in the business, its output, its business operations and its ability to cooperate. Not all of the contents of the mission statement are equally interested. The following is an example of Vinamilk's core values and business philosophy, the sixth and seventh points in the mission statement; core values, products and markets of Saigon.

The core values of Vinamilk

a) Privacy-integrity, honesty in conducting all transactions.
b) Respect-respect yourself, respect colleagues, respect the company, respect partners, cooperate with respectful spirit.
c) Fair-fair to employees, customers, suppliers and other stakeholders.
d) Ethics-respects established standards and acts in an ethical way.
e) Compliance-comply with laws, code of conduct, policies and regulations of the company.

Business philosophy of vinamilk

"Vinamilk wants to become the most popular producer in all regions. So we think that quality and creativity are the companions of Vinamilk. Vinamilk sees the customer at the center of all its operations and is committed to meet every customer's need. On quality policy – always satisfy and be responsible to customers by diversifying products and services, ensuring quality, safety and hygiene of food at competitive prices, respecting business ethics and obey the law"

Products and markets of Saigon tourist

"Having a wide range of influence and scope; being member of prestigious tourism organizations in the country and in the world. Business activities to be focused on four core areas: Hotel & Resorts, Restaurants, Travel Services, Entertainment. At the same time, Saigontourist uses the advantages in related services to invest and control support services; utilizes advantages of specialization for multi-functional activities, thereby improve the efficiency of business operations and maximize competitiveness. "

The core values of Saigon tourist

"Being prestige brand of tourism, leading chain of hotels in Vietnam and the region, long-standing cultural foundation full of national identity, high standard and high class system of diversified products and services. Having tradition of hospitality and professionalism, responsibility and commitment to meet the diverse and high level needs of customer"

As mentioned above, we have presented the time needed, but not necessarily, to change the mission, and also gave examples of changes in

Vinamilk's vision and mission. It is also important to review the mission when large market fluctuations take place. The following factors influence the mission from within (subjective) and externally (objective). For subjective factors, the business leaders can actively decide whether and how to change the mission. For objective factors, the mission must be changed to fit new context of the business.

Internal factors affecting the mission

- Resources-human, material, financial resources. When a business is depleted of resources, for example, the lack of high-quality human resources in the field of technology, the technology content needs to change and that it may or may not change other functional contents.
- The ability of internal personnel-if the ability of personnel in the enterprise is improved, the map of the strengths and weaknesses of the enterprise will change and this can lead to changes in remaining contents.
- Scale of operation-market-share, personnel, products. If the size of the business is expanding, businesses will have the opportunity to develop to a new height, so the most important is to improve the image of business in the eyes of partners and external community.
- Organizational culture-strong, disciplined. Culture will be an important determinant of business philosophy and core values that are respected by the employees.

External factors affecting the mission

- Market and customer opportunities-business opportunities are always hidden and present in the business environment which needs to be analyzed to identify them, combined with taking advantage of strengths and improving weaknesses. Enterprise can take advantage of those opportunities to improve its competitive position relative to other competitors.

Competitive environment characteristics-if the competitive environment has a myriad of small competitors (such as the retail industry), corporate mission statement will not be considered by many of them. Conversely, if there are only a few large competitors in the industry (such as the aviation industry), it is important to design a consistent mission statement. In the industry with a few equally potential competitors, they will analyze, explore and examine each other very thoroughly and professionally.

Product life cycle-if the life cycle of the product, technology, or business is too short, it may not be necessary to change the mission statement (for example, smartphone). But there are sectors in which the new technology is a turning point that can knock out existing competitors and create favorable conditions for other businesses to emerge. For example, the US finds new technology to exploit oil from shale, which has made its supply in the market plentiful and the price of oil has fallen dramatically, so not only in the world's oil companies suffer but so do oil export countries.

Characteristics of general environment: economics, law-politics, culture-society, science-technology.

Goals and objectives

Mission and mission statement is a concretization of vision into the details that expresses the aspirations and ambitions of the leaders and a company as a whole. The goal is to show the mission in a more specific way (in a certain space and time); the objective it is a particular state, milestone, destination that an organization or business wants to reach over a given period of time, or in other words, it is the means in each stage to reach the final goal. The objective is a basis to allocate resources to the activities of the business, to establish a business plan, to implement, monitor and evaluate activities within framework of the plan. The following are some of the classification categories commonly found in strategic management literature.

Goals classification

- Time based classification

Long-term goals (strategic objectives)

- A vision of over 5 years, coupled with strategic decisions and broad coverage of the entire business.
- Include financial targets (quantitative, quantitative) and non-financial (quality, qualitative).
- Create a hierarchy of priorities and bases for selection and tradeoffs (due to resource constraints).
- Must be both realistic (achievable, achievable) and challenging (but not too easy) for the individual implementer or implementer.
- Relate to the activities and effectively combine different functions of organization (synergy effect).

Short-term goals (operational objectives)

- Vision for less than a year, associated with operational decisions, highly quantitative.

- Specific-not too general, related to specific groups, markets and products.
- Measurable-can be determined the percentage achieved in certain time intervals.
- Must be both realistic (achievable, achievable) and challenging (but not too easy) for the individual implementer or implamenter.
- Time limits, human resource and budget cannot be exceeded;
- Flexible-adaptable to the change that may occur as a result of operational plans in a volatile and risky business environment.
- Contribute to the implementation of the strategy and achieve long-term goals-the link in the chain of business goals.
- Medium-term (tactical) objectives are intermediate, a mix of short-term and long-term goals.

Nature based classification

- Economic objectives-profit, turnover, market share, productivity are quantitative economic goals; quality, customer satisfaction, competitive position are qualitative economic goals.
- Social objectives-employee welfare, social responsibility (CSR), environmental responsibility, positive image in the community (PR-public relations).
- Political purpose-connected with authorities, lobbying for favorable changes and catching up on information.

Hierarchy level based classification

- Company level-Is general and long-term goals, serving as reference for at lower-level goals. This level goal is proposed by the board of directors and is a common goal of the entire company and all business units.
- Strategic business unit-goals associated with each unit, product, and sector; to be supportive for higher level goal (company level).
- Functional level-involves specific functional activities, such as marketing, finance, procurement, production, operation, human resources, research and development, technology of each business unit.

Stage of development based classification

- Fast-growing period-businesses must set a growth rate equal to the industry average, or remain unchanged compared to the years before the market is still developing if they want to stay on the market.

- Stable period-businesses must hold and consolidate past gains when the market has reached saturation.
- Period of decline-the growth rate of enterprises should be lower than the industry average, enterprises should reduce the scale of operation when the market is worse and better than withdrawing from the market (redirection to other areas of activities).

The goals are outlined by the business leaders based on their defined mission, internal situation, and actual developments in the business environment. Internal (subjective) and external (objective) factors can influence the goals' identification, implementation, changes, adjustments and cancellations even before they are done. The following are basic elements that can influence the goals setting, even long-term goals may be subject to change in many different directions.

Internal factors influencing the identification and implementation of goals

- Human, financial, and material resources-they determine the feasibility of the goal, without them (the resources needed) the goals although easy to implement, become futile and impractical.
- Leadership-attitudes, aspirations, business philosophy, risk tolerance will lead to biases in the choice of goals and when the leader's views change, goals become obsolete due to lack of resources and support from them.
- Past performance-inherited experiences, prior achievements will determine and prioritize goals that are close to those achieved in the past.
- Owners-shareholders will put pressure on business to profitable quantitative and short-term objectives, above all.
- Trade unions-they affect the performance of the company in terms of increasing labor productivity and motivating employees to take on the burden of expenses for welfare and social security benefits.

External factors influencing the identification and implementation of goals

General environment-enterprises need to analyze environment thoroughly to exploit existing opportunities and minimize potential risks.

New opportunities identified will motivate enterprises to set new goals and develop emerging strategies related to enhancing position and uplift competitiveness of enterprises to a new level;

Customers-they are key players that influence the planning. Today's businesses are customer oriented, or precisely,oriented to the needs of customer. If customer' needs change, and often change, the goals of the business are constantly changing;

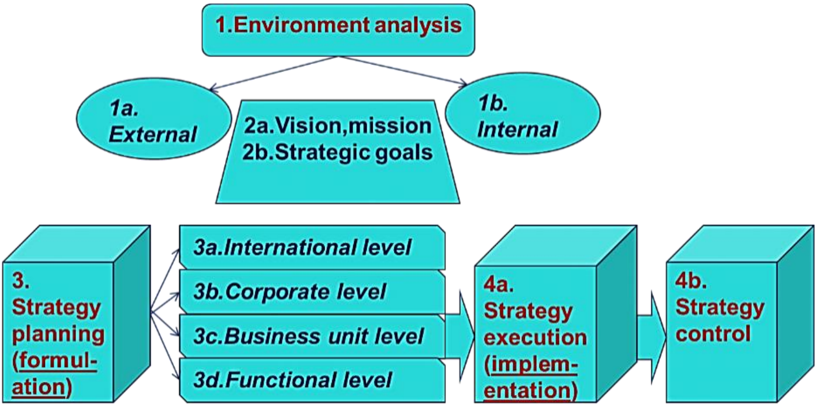
Competitors-their orientation and reactions may cause the business to re-analyze its internal situations (strengths, weaknesses, key resources) and as a consequence, redirect towards other goals;

Society-resources, environment, and community development factors can also be reoriented. Society often condemns businesses that go against the interests of society, the community and the environment. Any such enterprise demonstrates this attitude, following the example of previously irresponsible business enterprises (such as Vedan), after analyzing the relevant stakeholders and their ability to influence and its profitability, may have to change the goals and orientation to be more appropriate.

Process of strategic management

Strategic management, as well as other areas of management, is a process that takes place over a period of time and space, using certain input resources. Here, we emphasize the concept of process of strategic management, which considers it as a process that takes place with certain progress, which consists of several successive stages. By definition, a process is a process that is carried out to bring the state of the whole enterprise from point A to point B with hopes that it is better than A) without specifying the path from A to B which includes steps. Strategic management procedures are deterministic processes that are implemented including steps that are arranged in a certain order.

Illustration 39: Procedure of strategic management



Source: Own development

Business environment analysis **(step 1)**

- **External business environment (step 1a):** It must be implemented continuously to identify threats (T-Threats) and opportunities (O-Opportunities) affecting the operation of the business. The external business environment consists of three levels: general macro-business environment, competitive sectorial, industry related business environment, and the environment of the strategic groups within the industry.
- **Internal business environment (step 1b):** Identify the competencies that distinguish the enterprise and develop its competitive advantage by identifying, within each functional business area, Strengths (S-Strengths) and Weaknesses (W-Weaknesses) relative to other competitors of the company in the industry.

Identify vision, mission and strategic goals **(steps 2a, 2b)**

Vision related to the image of the business at least 10 years ahead in the future, the mission is the obligation and commitment of the business to the community, defined un unchanged for shorter period (from 5 to to 10 years). On the contrary, the goals, even the strategic objectives of the business are often identified and adjusted more often. Identifying vision, mission and setting strategic goals is a must for new companies (with a small initial size, such as Chewy Junior-a chain of pastries being delivered in Ho Chi Minh City following business model of Singapore) as well as for companies with long history (with relatively large scale, such as FPT). Mission is more specific than vision, it is derived from the vision and it relates to specific business categories of activities within the enterprise. Meanwhile, the vision is a general outlook and somewhat more distant for ordinary employees and executives in the organization. Defining vision and mission is the basis for analyzing, selecting and implementing strategies to reach the set goals.

Strategy building **(step 3)**

- **Company-level strategy (step 3b):** Selecting a certain business areas (e.g. Food & Beverages), products (e.g. morning snacks) and markets (Ho Chi Minh City and neighboring provinces)
- **Strategic business unit (step 3c):** Strategy in the business environment of the business units of the company (for example, a noodle business unit in District 1 of Ho Chi Minh City)
- **Functional strategy (3d step):** Functional strategies must create synergy effect to promote competitive advantage and to support a corporate strategy to achieve goals. Functional strategies are relating to such areas as marketing, finance, research and development, design, procurement, production, consumption and customer care.

Strategy implementation and control **(step 4)**

Implement the strategy (step 4a)

The strategy must be accompanied by an action program to concretize the strategy, demonstrate its viability. Operational programs must be integrated in synchronous manner (between functions and between business units) to achieve comparable (relative) competitive advantages. Objectives must ensure consistency, non-contradiction (e.g. between short and long-term objectives, between individual and organizational goals). Implementation of the strategy involves the allocation of resources between business units and between functional departments. Internally, within each functional unit and each business unit resource allocation is necessary to ensure the feasibility of each strategy (sufficient resources to implement) and ensure that the strategy is effectively implemented to maintain and develop the competitive position (proper use of resources).

Strategic control (step 4b)

Through the design of a structured system with specific characteristics for control (self-control and mutual control) to ensure that the implementation of the strategy is carried out effectively. Control requires or is organized and implemented based on the choice between mechanistic (bureaucratic, rigid) and organic (easy to change, self-control) structures. It is better to find an intermediate solution to promote the strengths of the two types of structure. This depends on the characteristics of each business, the goals set and the decision of the management.

4.2 Corporate strategy planning

4.2.1 International business strategy

In the context of the international economic integration that is taking place increasingly, enterprises, whether in developed or developing countries, regardless of their size or scale, the field of business activities, to a certain extent, are operating in a global business environment. The obvious tendency is that foreign companies coming especially from developed countries tend to expand their production and business activities, to invest in international markets, paying special attention to emerging, full of potential, markets. Domestic companies having no trade or investment activities in foreign markets, at least in the domestic market, they are in contact with international partners, suppliers, customers, competitors... Reaching out to global market is an indispensable and irreversible trend in the business context today. Biggest conglomerates in the world have long considered the global market as a level playing field for all businesses from different countries. In this fierce competitive environment, these international corporations, in order to compete with each other, have to find and increase their competitive advantage everywhere around the globe. Any company or corporation that has a narrow mind limited by domestic country-wide or territory-wide market, will be at disadvantage because this way it has limited its opportunities for development. In the context of other competitors in any way to increase their competitive advantage globally, they will be the ones who are quickly eliminated from the first game, because they have underestimated the role and importance of the competition. Globalization factor in competition.

Not only large companies need attention and serious attention to the global market. Small and medium-sized enterprises (SMEs), if they want to grow, should also consider the benefits that can be gained from global expansion within their existing resources and capabilities. In fact, the small and medium enterprises, due to their overwhelming number in the economy of all countries, are driving forces of the globalization of the world economy. These local small and medium enterprises can, in the framework of their global operations, cooperate with large corporations to penetrate the domestic market. Small and medium-sized enterprises can cooperate with corporations as suppliers, partners providing complementary services and corporate customers engaged in the consumption of their products. Depending on the choice of appropriate competition strategies, depending on the ingenuity and excellence in utilizing business opportunities in the global marketplace, small and medium-size businesses have the amazing opportunity to rapidly mature and become big corporations in relatively short period of time such as Facebook which needs just ten years to becoame a giant in social networking, the same is with Google – the world giant search engine of information on the Internet. With the rapid development of science and technology, especially information and communication technology, businesses in other industries can succeed based on the benefits of technology. The following are presented: opportunities (based on the advantages of globalization) and the defying risks (based on the shortcomings of globalization) for businesses in the process of globalization and expansion beyond the borders of a nation.

Illustration 40: Advantages and disadvantages of global business expansion

ADVANTAGES:

- Risk spreading
- High growth potential
- Access to resources
- Low cost
- Avoid trade barriers
- Scale up production to reduce fixed costs on the product
- Attacking foreign opponents on their home turf
- Attacking domestic rivals in foreign markets

DISADVANTAGES:

- Exchange rate risk
- Market risk
- Cultural risk
- Policy risks
- Human risk

- Risk of inflation
- Political risk
- Information risk
- Technological risks

Source: Own development

Advantages

- Risk spreading-tying oneself into a done domestic market will lead to greater risk when the market goes down and the business will have no other choice. Globalization is a diversification and diversification of risk in business.
- Higher growth potential-emerging markets are often potential high growth markets with promising prospects.

- Access to resources-especially diverse scarce resources (which the company does not own or earn in domestic market), can be accessed at more attractive price.
- Low cost-in developing countries, costs of starting and maintaining business activities are lower, legal requirements are less strict, business environment is less competitive and customers less demanding.
- Avoid trade barriers-with the establishment of production bases and sales networks in foreign markets, businesses will avoid tariff and non-tariff barriers imposed by each country at different rates for imported goods and services.
- Expand the production scale to reduce the average fixed cost per product – combining these advantages, enterprises can expand the scale of production, business operations and distribution in the markets with higher economic and population growth, thereby reducing the fixed costs on the product.
- Attacking foreign rivals right on their home field-domestic corporations can compete with foreign companies not only in their own country but even in their domestic market (overseas market for the domestic corporations).
- Attacking domestic competitors in foreign markets-corporations can compete not directly in the domestic market but confronting indirectly on the foreign market.

Disadvantages

- Foreign exchange risk-international trading involves the exchange of foreign currencies, usually in the currency of country of origin and in the currency of the country of counterpart or world major currency such as EUR, JPY, and GBP. When the exchange rates between these currencies change, the risk of deviation will appear, sometimes with a negative trend for the business.
- Risks of inflation-in developed countries inflation levels are relatively low and stable (in some countries that tend to be deflated), while in developing markets the level of inflation is at very high level, usually two-digit numbers (as in Vietnam a few years ago, in Russia at present due to falling oil prices, one of the main export products of the country), causing certain risks for the business.

- Market risk-new potential markets, if not thoroughly researched, will create risks that entering alone businesses will suffer due to lack of knowledge.
- Political risk-the political situation between the two countries may change, if in a deteriorating direction (negatively affecting economic relations between the two countries), there will be significant disadvantages for business.
- Cultural risks-new potential markets, if not thoroughly researched in terms of consumer culture and customer tastes, will create the risk for entering and operating the businesses. They will suffer due to the lack of specific soft knowledge related (the difference between business culture of the two countries makes the two partners more difficult to understand each other, difficult to reach agreement).
- Risk of information-information is the basis of decision making, the lack of information or lack of full access to them will negatively impact enterprises, especially for businesses starting their operations in a new and still strange market.
- Policy risk-economic policy in the target country may be of erratic changes, which is always the case in developing and unstable markets in terms of structure and legislation. It is the clear and predictable nature of macroeconomic policies that will facilitate and minimize the risk for businesses to invest. But this cannot happen overnight, so certain risks remain.
- Technological risks-each country has recommendations for applying different types of technology to suit the situation of domestic production and business. International businesses must adapt to this situation and adopt appropriate adaptation policies. In poor countries people often use backward and simple technology (due to poor performance and capacity), inexpensive (due to budget constraints) and that will adversely affect the ecological environment (due to lack of attention to environmental protection).
- Human resource risk-it is related with the difficulty to find skilled personnel and appropriate management staff. Intel has been trying to find right people in Vietnam for business purposes, but the education level of indigenous workers has not met the demand.

Businesses in the global marketplace have their own business strategies, in line with market developments, the nature of the product/service, and their own capacity. Studies have categorized the following different orientations in the global business strategy of transnational corporations (based on approaches to the issue of competitive advantage, standardization in business, building the advantage of government relations):

- Ethnocentric-take own business as a center, promote the comparative economic advantages of own country and own business.
- Policentric-each market has its own unique culture and local conditions, so these markets must be analyzed independently from different business strategies.
- Geocentric-the world is considered to be a global market that is consistent with the general interests and tastes of consumers who are considered global citizens. Global companies have a high degree of standardization of their business processes, for products globally consistent in design, style, color, quality, and even marketing and communication methods.
- Regiocentric/transnational-is a combination of polycentric and geocentric forms.

Table 26: Global orientation of international corporations

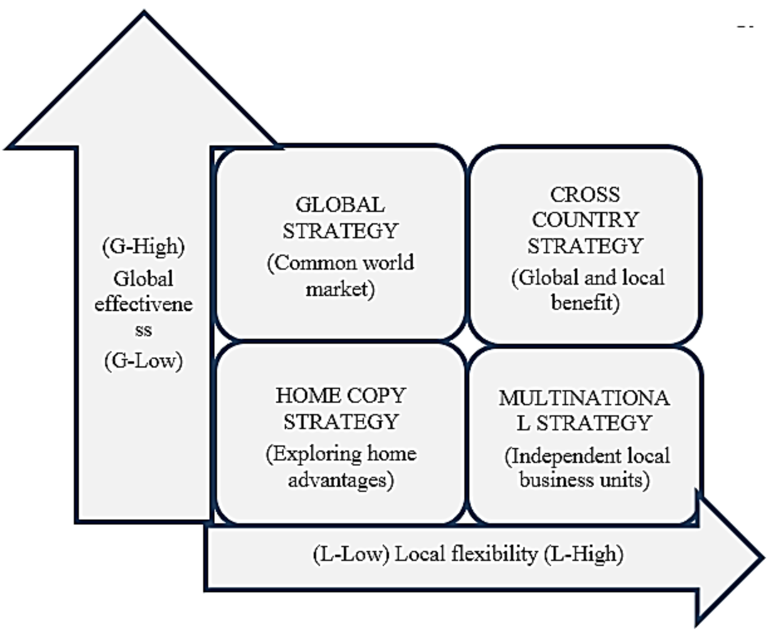
	Global Orientation			
	Ethnocentric	**Policentric**	**Geocentric**	**Regiocentric**
Mission	• Profit	• Public acceptance	• Profit • Acceptance by the public	• Profit • Acceptance by the public
Decision	• Top-down	• Bottom-up	• Exchange at all levels within the company	• Exchange between branch and region
Strategy	• Global integration	• Meet the specific needs of each country	• Global integration	• Global integration • Local adaptation
Structure	• Hierarchical structure by product	• Hierarchical structure by region	• Network structure	• Product network architecture • local network architecture
Culture	• A homeowner (parental country)	• Autonomy of each country • Host country	• Global	• Regional
Technology	• Mass	• Production in	• Flexible	• Flexible

	production	batches	production	production
marketing	• Product development based on the needs of the host country	• Local product development based on local needs	• Global product development with local adjustment	• Global product development with local adjustment
Finance	• Transfer to the host country	• Transfer profit to the host country	• Reallocate globally	• Reallocate globally
Human resource	• Key positions held by the host country	• Trasfer best HR to everywhere globally	• Trasfer best HR to everywhere globally	• Key positions held by the host country

Source: Own development

Another type of global business strategy, similar to the above classification, is formed by using two basic criteria: global efficiency and local flexibility. Based on that, we have four types of strategy: multi-national strategy, global strategy, cross-national strategy, home copy strategy.

Illustration 41: Matrix of international business strategy



Notes: G-Globality; L-Locality

Source: Own development

Multinational strategy (high locality, low global): The strategy of independent subsidiaries focused on each specific market and high degree of customization. This strategy focuses on the localization of products and brands. Centralized control (at the corporate level) is informal and simple. The activities of overseas business units are independent in order to focus on the mass demand and the variety of middle and low income customers. This is strategy of global FMCG groups such as Kimberly Clark, P & G, Unilever, and Cadbury.

Global strategy (low locality, high globalization): Global markets are unified; power and responsibility are concentrated in one place. This strategy focuses on power and decision-making in one place, at the level of parent company. The parent company is also headquartered in strict control of the operations of the subsidiaries (business units). Overseas market is considered a unified market. This is a strategy of companies with long-established and well-known global car and electronic brands such as Sony, Toyota, BMW, and VW.

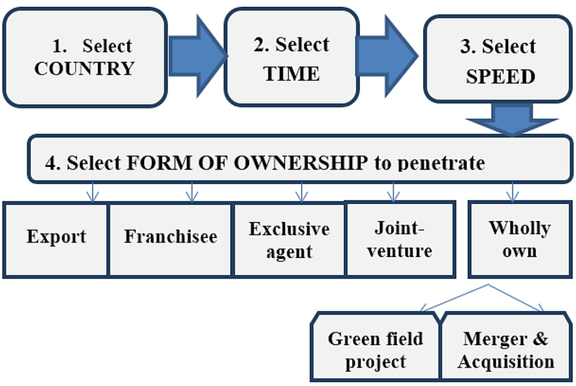
Home copy strategy (low locality, low global): A country's unique advantage strategy is often highly developed. This strategy aims to internationalize strong national brands with quality, prestige and world class, internationalization of business processes related to functional activities. Control is done in a highly focused manner with high formality. Overseas business units are only complementary to domestic business units. This is the strategy of, luxury car companies and expensive fashion stores, like Roll Royce, Luis Vuitton.

Cross-country strategy (high locality, global high): Global benefits (e.g. some activities such as research and development, centralized finance management) in parallel with local national interests (the remaining activities are carried out in a scattered way by the business units). This is a mixed strategy, where the company's business units are both specialized and scattered. Transnational business units are independent from each other as they cooperate within the scope of certain functions. This is Microsoft and Ford's strategy. Microsoft has an organizational structure in the form of matrices, with core functions centralized such as research and development, and other functions such as marketing, production, and distribution are dispersed by business units scattered across the globe. Ford's multinational strategy is a mix of three types of strategies: home copy strategy-he transfer of core competencies from a parent company to a subsidiary, multi-national strategy-to disperse organizationally to meet the needs of the local and global strategy-to unify the activities of the corporation.

International market penetration strategies

International business strategy is a combination of the two strategies, namely international market penetration strategy and competitive strategy in the international market. Here we will talk about strategies to penetrate the international market first, while the strategy of competition in the international market will be discussed in the next section. The first step in the process of globalization is to penetrate some of the first foreign markets the company seems to be the most advantageous after dominating the domestic market or considering that the domestic market is declining substantially. The following are the steps of the international market entry process.

Illustration 42: Procedure of foreign market penetration



Source: Own development

Step 1: Select the country of penetration

Neighboring countries-neighboring countries have the advantage of being geographically and culturally close, similar in level of economic development, creating favorable conditions for first time penetrating foreign market companies which lack experience. For Vietnamese enterprises, the first step in foreign market expansion could be Laos, Cambodia and other ASEAN countries. For Polish enterprises, the right destinations for foreign market expansion should be all EU countries.

Biggest developed markets-if the company has certain strengths, it can penetrate biggest markets in the world such as USA, Japan, and EU. These are high purchasing powerhouses with high prices, high quality standards, and fastidious consumers, while competitors are fiercely competitive.

Big developing markets-this is a market with high growth and prospects with less intense competition. Here, businesses can easily increase sales and gain economies of scale. However, this market is not stable in many aspects and suitable only for companies with low cost business strategy because the purchasing power per capita is low (but the prospects will increase rapidly). These markets belong to the BRICS countries (Brazil, Russia, India, China, and South Africa) and some other countries such as Indonesia, Mexico, and Turkey.

Markets that are less developed or underdeveloped-they are less competitive but politically unstable causing the business to face many uncertainties. These markets include most African countries, the Middle East (Syria) or Central America and some small countries in Asia, such as Afghanistan, where people are living in poverty and constant warfare.

Step 2: Choose the time of entry

With the current trend that countries are opening up their economies to deepen their integration with the rest of the world, companies must begin to penetrate the international market sooner or later to gain better comparative advantage than their rivals. Companies may have the following options:

Pioneer: The Company will easily create the impression for customers, build the brand and the master the market, welcome the first advantage, but also bear the high risks that the pioneers always encountered.

Follower: When new markets have been defined among pioneers, significant amount of resources is needed for the followers to follow the market and position themselves there.

Last follower: The last follower companies will have to bear the least risk, the main opportunities in the market also did not belong to them. They can only take advantage of new opportunities, because the market is always changing with the opportunities and risks that always appear, and then develop their competitive position here.

Step 3: Choose penetration speed

Depending on industry (business sector), resources and control capacity, the company can conduct market penetration at different rates.

Instantaneously-for large and experienced companies with sufficient resources or ability to mobilize resources, they can expand and penetrate the market massively.

Slowly but firmly-for companies that are inexperienced, unable to fully mobilize the resources needed or because the market is too new, potential risks too high, they need to analyze more carefully before the penetration, so it is necessary to take steps, slow but sure.

Step 4: Choose the type of ownership

Export: this is the first path of the internationalization of each company. It is simple and it needs nearly nothing to be managed and it recovers capital immediately. It is encouraged and welcomed by the host country by creating jobs for the domestic labor market and bringing significant foreign currency to the country. Exports involve a number of risks, such as trade barriers, exchange rates, low and uncertain returns, limited knowledge of foreign markets and dependence on local distribution channels.

Franchisee: The franchisee will be entitled to produce or trade products or services under agreed conditions. This is the strategy of the company wanting to invest less and quickly expand its network of business units. Fast food restaurant chain McDonald's, Burger King, KFC, and Lotteria... are mostly franchise-based.

Exclusive agent: This form is used when international brands want to rapidly expand their sales volume, control sales and customer care for their product lines. There are many exclusive dealers distributing smart phones to the world's major markets such as Samsung, LG, Apple and Sony.

Joint ventures: This is often the way in which companies enter foreign markets forming joint ventures with local partners to take advantage of each other, avoiding certain risks in a completely new but potentially attractive market.

Wholly owned: When enterprises invest in the foreign market and want to do business independently, without being dependent on anyone because they want to keep the technology or product in secret. Full ownership may be due to the acquisition of 100% domestic production facilities or complete new construction (such as "greenfield" projects).

International market competition strategies

Low cost strategy

The advantage of multi-localization-implementing a multi-localization strategy, businesses can have certain cost savings advantages for low cost strategies. Firstly, local production and consumption will cut down shipping costs and avoid unnecessary tariff and non -tariff barriers compared to exports from the parent company or from other markets to local market. Secondly, if the local produce is good, the quality is guaranteed, the distributors and consumers will communicate with each other and the company will spend less on advertising marketing activities.

The advantage of globalization-implementing globalization strategy, businesses can have certain cost-saving advantages to serve low cost strategy. Firstly, the scale of supply, production and global distribution of highly standardized commodities will be provided to local markets at extremely competitive prices. For example, with a price of 14 USD cent for an ice cream cone served at fast food restaurant chain like Lotteria or KFC, few local businesses can compete. This advantage involves declining global inventory costs for global product lines and inputs to produce them, especially when the costs are evenly distributed globally among business units they are extremely low. Using new media technologies to make online advertising across the globe will also be a cost advantage.

Table 27: Competitive advantages of low cost strategy in foreign market

The advantage comes from multi-localization	The advantage comes from globalization
Reduce shipping costs compared to on-site production and on-site sales.	Economic advantage due to the production and distribution of high standardized products.
Avoid tariff and non-tariff barriers.	Reduce inventory and inventory costs for globally consistent product lines in terms of usage, preservation, size, style, and packaging.
Cutting advertising costs, so that consumers in the local small self-product experience and word of mouth.	Online advertising with terrible spread but at a negligible cost

Source: Own development

Differentiation strategy

The advantage of multi-localization-implementing a multi-localization strategy for enterprises has several advantages in diversifying products and services in different ways to serve differentiation strategies. In general, we can use the characteristics of local culture to improve the advertising promotions to attract indigenous people, using local characteristics technology to Improve the product to fit the local consumer, and make the customer service and style more consistent with local culture standards.

The advantage of globalization-the implementation of the globalization strategy of enterprises can achieve a number of advantages associated with the diversification of products and services in all forms in order to serve the differentiation strategy. Firstly, the use of information and communication technology can unify the image of the product and the company around the world in a very effective way, different from that of other competitors. Toyota and VW are both middle-class car manufacturers in developed countries and gradually developing countries, so the image of the products of these two companies (Toyota of Japan, VW of Germany) conveyed to their customers is completely different. In general, Toyota is targeting Asian customers, while VW is targeting European and American customers. Secondly, for high-tech corporations, the globalization (with the participation of some of the world's leading corporations) of research and development activities will lead to the reduction and sharing of risks and drive innovation to bring about benefits of globalization to differentiation strategies. Building a number of new global standards to differentiate products and services is also an advantage of globalization for this differentiation strategy.

Table 28: Competitive advantage of differentiation strategy in foreign market

The advantage comes from multi-localization	The advantage comes from globalization
Adjust advertising strategies to promote the "gu" of consumers in the local.	The advantage of scale and diffusion in promotional advertising through ICT technologies is that ICT brings the image of the company and its products to the international community.
Use local technology to improve and develop products to suit the needs and preferences of consumers.	Establish research and development networks among partner firms to develop new technologies and product lines globally.
Adapting the way of serving and taking care of customers with cultural norms of each specific locality.	Develop global service standards for a number of countries and markets around the world.

Source: Own development

Quick reaction strategy

The advantage of multi-localization-through the implementation of a multi-localization strategy enterprises can achieve a number of speed advantages to better serve the rapid response strategy. First, through joint ventures with local companies, it is possible to respond in a timely manner to changes in markets, products and the dynamics of their competitors. Second, with multi-localization strategy, business units can independently implement their own appropriate strategies and action programs to deal with the drastic changes taking place in the local market. Third, the business and business unit must be flexible to adjust the advertising strategy more appropriate and timely with the evolution of the local situation.

The advantage of globalization-through the implementation of globalization strategies, businesses can get a certain amount of speed advantage in order to better serve the rapid response strategy. Joint ventures with other international corporations will help the parties quickly conquer new markets, as well as in the field of research and development, to deliver new product lines at right time, in right place, for right customers, creating certain advantages. The next step is to adjust the advertising strategy to match the trend of global consumption.

Table 29: Competitive advantage of quick response strategy in foreign market

The advantage comes from multi-localization	The advantage comes from globalization
Venture with local businesses to react more quickly to market fluctuations, consumer demand for your products and the dynamics of your competitors.	Venture with other conglomerates to quickly and effectively conquer the challenges of new markets.
Parental independence makes business units more dynamic to respond better, more flexibly, and more quickly to the changes that occur in each local market.	Corporations are linked to each other in the field of research and development to develop new technologies, and from there new products quickly.
Quickly adjust advertising strategies to better suit consumers in different locations.	Quickly adjust advertising strategies to better suit consumers around the world.

Source: Own development

Strategy of good relations with local government

Good relations with local governments can be extremely valuable competitive advantages for international businesses. Local governments play many roles that directly relate to the benefits and losses of enterprises. Here are some of the roles that local governments play for international businesses:

Policy-makers-policy can be proposed and changed by local authorities as planners who are responsible for implementing that policy. A specific policy can have a positive or negative impact on the business in both short and long term. In the process of policymaking and its implementation, governments may be interested in the interests of a number of firms, both domestic and foreign, with whom they have a close relationship and those with whom government shares bilateral benefits and interests.

Supplier-the government owns the right to allocate, control and coordinate the natural resources within its locality. They will decide to whom to allocate these valuable resources and based on which principles.

Customers-the government needs to purchase products and services to perform their functions and the enterprises operating in corresponding sectors are main suppliers. The government has the right to place orders, and these are usually very large orders, which benefit it most. Enterprises can consider government orders as a great opportunity because cooperation with government will be more stable and on a longer term basis than with other business partners.

Competitors-in the local economy, in addition to private enterprises, there are also state-owned enterprises. These public sector enterprises will compete directly with foreign firms. Governments in the localities generally favor companies from public sector, more than companies from other sectors.

For businesses and international corporations, they can have certain advantages when pursuing localization strategies and globalization strategies. The following are some of the typical benefits for both of these types of strategies.

The advantage of multi-localization-through implementation of multi-localization strategy businesses can achieve a number of advantages for the strategy of leveraging the support of local governments. Businesses can gain fame and prestige, win the trust of local governments through their practical contribution to local economy, being responsible business, respecting cultural values and laws of the host country. By doing so, the business will receive satisfactory returns from the host country based on the above roles. Moreover, the adaptation, adjustment and response to changes in laws and policies of the host country will make enterprises more dynamic, creating the pedal to conquer the new local market in the future.

The advantage of globalization-through the implementation of globalization strategy businesses achieve certain advantages in order to serve the strategy of leveraging the support of local governments. When businesses choose globalization as their strategy, it is difficult for them to meet demands and requirements of local government. However, as a major partner, they have some strength in negotiating with local authorities. They may suggest ways to cooperate with the government to address important and urgent issues of the locality. Through that, they will reach certain compromises in their favor.

Table 30: Competitive advantage of strategy of good relations with local government in foreign market

The advantage comes from multi-localization	The advantage comes from globalization
The reputation and support of the local government for the employment of local labor, which contributes to the employment of indigenous peoples; Respect the customs, habits, culture and laws of the host country.	Strength of negotiation for local government.
There is certain dynamism due to the continuous adjustment of business activities to adapt and deal with the local policies of the host country.	It is possible to cooperate and interact with local authorities in matters important to the parties

Source: Own development

Globalization and localization strategies

Globalization and localization are the two opposite sides of coin in the process of world economy globalization and international integration of businesses. Duality is both a problem and a challenge for managers. Managers must find a balance between these two extremes so that the company can grow sustainably. Similarly, executives often have to find a balance, compromise, on a number of different issues, between economic and social benefits, between economic development and economic growth, between standardization and customization, between competition and cooperation, between bureaucracy and organic mobility, between formalism and nonformalism (in corporate governance and organizational style of management), between increased control and self-control (internal control), between decentralization and centralization.

Globalization strategy

In the vast majority of industries and sectors, with trend of openness and internationalization not only of business activities, it is becoming increasingly difficult to achieve economies of scale and synergy advantage in a domestic market, even if it is a very large market like the US, EU or China. Consequently, companies and corporations are forced to expand globally, taking advantage of the diverse competitive edge of geographic regions on Earth to maximize their competitive edge and capacity, targeting higher performance when operating in a number of single national markets. The fundamental foundation of the globalization process is so irresistible today, apart from the political and policy support at international level, the development of information & communication technology and logistics technology enable and facilitate the global business strategy to be implemented more easily and conveniently than local business strategy. As a result, the level of global competition has become increasingly fierce as more and more competitors enter the international market with new industries and businesses being formed. So businesses must always look for ways to remove this tension, such as through collaboration rather than confrontation.

(Multi) localization strategy

Each geographic market has its own distinctive features. These differences can be found in the analysis of segments of general business environment. In the macroeconomic segment, with varying per capita incomes, it is understandable to accept product lines at different prices in different markets. In the political and legal segment, countries' policies and legal documents often have different points, especially with regard to international trade and investment (policies of attraction, red carpet, selection and preference for some investors and some investment fields). Thus, in addition to global business strategies, businesses must have specific local strategies to deal with, to overcome and even to take advantage of those differences. In terms of socio-cultural, geo-climatic conditions, local consumers have different preferences, styles and habits; local competitors have different corporate cultures and business philosophy so that foreign firms penetrating local market must change to adapt. These changes take place, depending on the nature of the product as well as the characteristics of the general environment and the competitive environment of the locality.

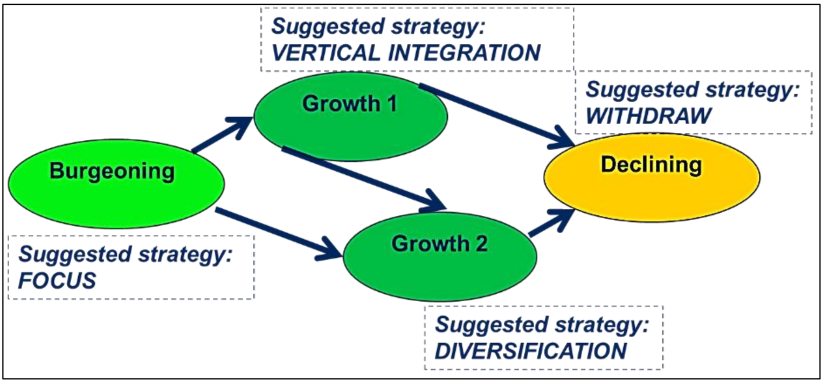
Linking globalization and localization strategy

Globalization and multi-localization, in essence, are not two opposite trends. On the contrary, they are complementary and have a close dialectical relationship. There are few businesses today that pursue one of these two extreme strategies. In fact, their business strategy is a blend of globalization and multi-locality, aiming at the synergy effect of these two forms of strategy, taking advantages of their mutual support. Depending on product line that the business is manufacturing, depending on nature of the market and the intensity of competition in the industry, and in the course of time, the strategic shift is carried out in different directions, that is somewhere between these two extremes. Today's international corporations often have a lot of items and services in their catalogs. For a number of items globalization strategies should be applied and for some other items the multi-locality strategy should be in place. For the remaining items, a mixed strategy is right. Depending on the specific commodity, the degree of globalization or multi-locality may be different. For example, in Japan's AEON supermarket chain operating in Vietnam only one third of the products sold are made in Vietnam, adapted and adjusted to suit the taste and style of consumption in Vietnam. One third of the remaining items are from Japan, most of which seem unsuitable for Vietnamese people. One third of items are from the rest of the world. These are factors that make the difference amongst other supermarkets and the Vietnamese consumers want to voluntarily adapt to products bearing Japanese flavor and trademarks instead of their adaptation to customize to Vietnamese taste.

4.2.2 Corporate strategy

Strategies for stages of corporate development

Illustration 43: Stages of corporate development



Source: Own development

Focus strategy in burgeoning (embryonic) stage

In the first, burgeoning phase of development, when enterprise is still in the capital mobilization period, focus is put on learning about the market, products and the industry. Enterprise needs to focus on exploiting the market, the selected business area so well to assert and to success in a confident manner from the beginning. According to the method of reasonable action, at the beginning, enterprise will be fortunate with some advantages, as well as encounter certain difficulties, specifically as follows:

Advantage

- The company will not disperse its limited resources to implement the focus strategy successfully.
- Easily grasp the market situation and make quick decisions when focusing on a specific business area or market.

Disadvantage

- Failure to ensure competitive advantage in a long run as other companies exploit more promising markets and sectors.
- It is difficult to maximize profits when focusing on one area, one market, even the risk of downbeat in the selected market or sector is too significant.

- Specialized capacity is not used in other related fields, however in this stage the enterprise has not yet possessed and created any special capacity.

These disadvantages show that business, in order to catch up with competitors, needs to implement focused growth strategy right at this burgeoning stage. There are three focused growth strategies:

- Current market entry strategy-increase sales and profits by boosting sales and marketing (discounts, promotions, distribution networks and channel development depending on each stage of development of each product line) on the current market. Businesses can increase their sales efforts for all of their products or just for some key products.
- New market development strategy-increasing efforts to sell existing products in new markets, thereby improving profitability and sales. New markets include:
- New geographic market-this is the effort of all levels in the economy. Enterprises have to make their own efforts to find new and sustainable markets for development. Government agencies at all levels, from central to local, through efforts to improve diplomatic relations, can help businesses in areas of trade and investment promotion;
- New target customers-companies need to discover new target customers who have a need for their products through tailored solutions that are currently being produced and consumed in line with the new needs identified;
- New uses of products-businesses in the design, manufacture and marketing their products can discover new uses through which new markets can be developed to target new customers. Businesses often focus on exploring the new uses of the product at the final stage of the product cycle in order to extend its life span to generate more sales and profits than sales and profits planned in the business plan.
- New product development strategy-strategy to increase sales and profitability by developing new product lines for sale on the current market. These are usually new products that have been significantly improved (in terms of quality, composition, features, designs, packaging, colors, sizes, services) based or not based on older products. New products are entirely invested by the company in research and development or in acquisition of patents from other partners.

Strategy of vertical integration in growing stage

In the stage of growth, by owning resources that create certain capital advantages, market experience and technology advancement, business can deploy integration strategies, both forward and backward, to enhance the competitive position and to increase influence as follows:

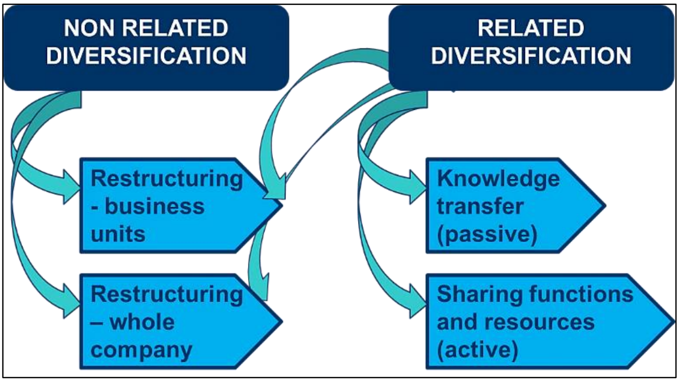
- The backward integration strategy: The supply of raw materials, in the case of high growth and profitability of inputs, or the supply chain is strategic for enterprise, this segment of value chain (the supply chain) should be acquired if the business wants to develop;
- Integration strategy forward: Take over the distribution of products, in case the distribution of output products of enterprises have high growth rate and profit, or is of strategic nature for the business so this segment of value chain need to be taken over if the business wants to develop.

These integration strategies give business some advantages and disadvantages. On the plus side, it will be able to secure and even increase its competitive position by cutting back on overlapping costs, tighter supervision and greater initiative in business operations and their development. On the disadvantage, enterprises will find it difficult to cope with the changes in technology (production processing enterprises need different types of input materials), change in demand (retail businesses need to capture the tastes and needs of customers that are always changing and often tougher over time) by adding more resources and improving capacity in both operational and technology management.

Strategy of diversification in growing stage

When business grows to a certain level, it operates for a long time in the market and therefore possesses surplus in financial resources and other resources (such as production capacity, personnel, technology). In addition to maintaining a competitive advantage in the core business, the company can expand into other areas that are relevant or not relevant to the current business through the following four approaches:

Illustration 44: Related and non-related diversification



Source: Own development

a) Strategic restructuring of the business

Business is the set of business units. The efficiency of the business depends on the efficiency of the business units that are part of their business architecture. Therefore, the strategic restructuring of business includes the following areas of activity:

- Monitor business units and adjust deviations if necessary.
- If needed, take on new business areas/business units or abandon some old business areas/business units.
- Reassign the goals of the business and of each business unit and reallocate resources to them as appropriate.

b) Restructuring

- Reorganizing the operations and changing managerial apparatuses at all levels of company must be carried out continuously as new developments occur.
- Restructuring corporate finance to save costs and deal with change.
- Build new business strategy based on the new resources the company is investing.

c) Transfer of skills

Expanding to relevant areas through the opening of new business units responsible for operations in those areas. Banks can open more business units selling insurance, trading securities, real estate, and performing foreign exchange operations;

Transferring experience and skills from the parent company through a subsidiary (newly established business unit) to consolidate its competitive position in the new field.

Through licensing and franchising to expand existing business models to other markets.

d) Sharing resources and functions

Expanding to relevant business areas, sharing resources (human resources, information resources, capital resources, science and technology know-hows,) and functions (functions that enterprises are performing very professionally such as risk management, quality management, logistics management...) with new business units established in these related fields.

Sharing internal resources and functions to gain economies of scale and potential for certain business units.

Share external resources and functions through mergers, acquisitions or alliances with other businesses to increase their strengths and competitive position of the parties involved.

Activities to scale up and influence the business based on relevant diversification (including the four strategies above) versus those based on unrelated diversification (including strategic restructuring of the business and restructuring) have the following disadvantages and advantages:

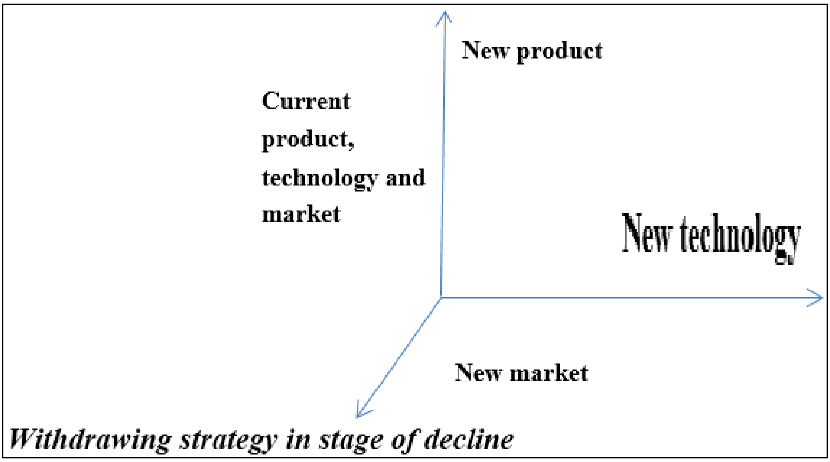
Less risk due to the accumulation of relevant experience (advantage) - the trend of today's business world is to implement relevant diversification strategy rather than irrelevant (unrelated) diversification strategy once very popular among the 60's and 70's. Companies like Walt Disney are a mix of related entertainment industries. Big corporations such as Microsoft, Samsung, Apple, and Sony, if they have unrelated diversification activities that are just marginalized not major business activities, using core competencies and resources. Vietnamese businesses tend to be in the opposite direction, focusing only on and expanding to the profitable industries in short term and not the ones where the business has certain strengths. For example, the manufacturing business expanded and even moved into the gold, securities and real estate business neglecting its core business;

It can be done in many ways (advantage)-it is impossible to implement an unrelated diversification strategy with skills transfer or resource sharing because the business sectors are not closely related professionally. The relevant diversification strategy can be implemented through the above four approaches, while the unrelated diversification strategy can only be implemented in the first two ways.

There is a need for similarity and this is not always the case (disadvantage)-the related diversification strategy can only be executed when there is a similarity of skills and resources needed between the existing business area and the new business area. For narrow business areas and specific industries, this is unlikely. There are even very specific areas, so it does not involve any business area or any sector.

High cost, difficulties in accounting organization (disadvantage)-this cost relates to the organization and coordination between business units, cost, profit and general cost accounting so that the costs that business units incur should not exceed the benefits that the diversification strategy brings about in order to be able to launch new technologies, produce new products and compete on new markets as presented below.

Illustration 45: New and current product, technology and market



Source: Own development

Withdrawing strategy in stage of decline

When the business is in a downturn, due to objective reasons (market downturn) or subjective reason (poor management), making themselves fall into the dilemma, facing many difficulties, disadvantages such as rising costs and declining profits. Business must then cut cost and change to stop the decline and restore growth or the business must even retreat from the current market. This is not bad and wrong, this way it helps business cut losses in time to reserve resources to invest in the prospective market and potential projects, at appropriate times. From a macroeconomic perspective too, a healthy economy must always be filtered out of the weaker economic sectors, not competitive enough, giving way to new businesses, with innovative ideas and new vitality. The following are the causes of the decline and the measures that need to be taken to deal with them.

Illustration 46: The causes of business decline

Source: Own development

Poor management: Executives, who are subjective, poorly qualified, lacking in qualities and expertise in key areas of business, possess autocratic and authoritative thinking and acting and nepotic style of management. At time of crisis and economic difficulties as in 2008-2010, the real management competencies were revealed. A number of enterprises, especially small and medium size enterprises, have been dissolved or suspended due to market downturn, as consumers' demand for products has declined sharply. It seems, in times when the economy is on the high growth path (before 2008), businesses are in comfortable situation with many attractive opportunities and management competencies are not core factors of success. Just as stock rises and real estate sublimates, investors more or less gain but not necessarily due to their professional knowledge.

Expanding oversight: Expanding business too fast, too easy, too diversified (unrelated diversification) makes it difficult to control them. Businesses often have a risky strategy, expanding their scope primarily on high-yielding loans in terms of size and interest rates, causing financial instability and investment risk, especially when the crisis suddenly occurs. Previously, in 2007 and before, Vietnamese enterprises, banks and securities companies also expanded with different reasons and motives. Firstly, banks follow very easy standards for loan approval, especially for risky loans such as real estate or securities investment. Secondly, businesses that see an immediate benefit from non-professional (non-related diversified) ventures, have invested more resources in these areas and neglected their core activities. Third, once this trend becomes a movement, with the mentality of

Vietnamese and Vietnamese businesses, there is no choice but to splash water under the rain. It is notable that a large amount of remittances are also being poured from abroad into these areas.

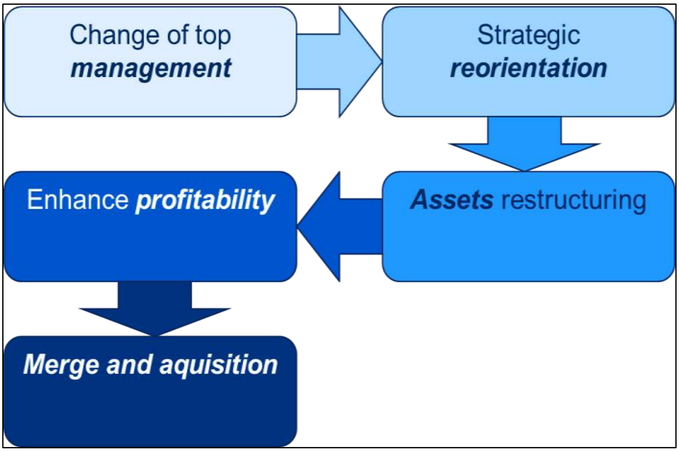
Poor financial management: Often expressed in the fact that businesses use short-term loans, hot loans with high interest rates to invest in long-term projects or to expose themselves in a wasteful manner. Secondly, this type of business often both borrows and lends a lot of money to many unpaid debtors make financial liquidity disappear, putting itself in deadlock. Thirdly, Vietnamese enterprises and Vietnamese people as well are considerably poor but tend to love showing off. When business is convenient, with abundant financial resources, businessmen do not hesitate to spend much on luxury products and services, from very large amounts spent on advertising and PR (through awards programs, sponsorships...) which do not bring the specific benefits and perceive as the business is doing well due to those expenditures. This is evident and felt very clearly when the economy is in recession with many difficulties coming at the same time. Without timely awareness of this, businesses are not quick to cut costs, save money, reduce operating scales and so fall into financial stalemate. Owners of businesses have to let go of their business that used to be thriving.

High costs: It may be due to the use of outdated machinery, equipment, technological lines, low productivity, small scale, so that it cannot be strong in negotiating with partners, the big suppliers and customers to deliver the most cost-effective deals on input materials, maintenance, and machinery operations. Small and medium sized enterprises in Vietnam are always at a high cost and often are not in a position to set prices relative to large firms and foreign corporations doing business in Vietnam.

New competitor: The presence of new investors coming from abroad, having outstanding advantages in terms of scale, capital, management and technology will push domestic firms into a dilemma, especially in low entry barriers industries. We see the retail and fast food market of Vietnam seems to have fallen into the hands of foreign competitors such as Big C, Lotte, Aeon, (retail), KFC, McDonald's, Lotteria, Jollibee, Popeyes (fast food) and many smaller competitors.

Changing customer needs: Cultural, technological, economic, and political factors can alter customer's taste, making products and services obsolete right from the start. Thus, the likelihood of success of a new product or service is very low if the manufacturers are not flexible, do not have alternatives and do not have the moves to adjust the technical parameters and requirements at appropriate times so that they are better suited to the needs of the market than the competitors.

Illustration 47: Steps of stage of cut and change



Source: Own development

The main steps of the cut and change phase can be made concurrently, without having to follow the sequence presented above.

- Change of management: new leadership with new qualities and competencies is needed to work more closely and effectively with the rest of the staff and better suited to the managing and operating the business, especially at the critical moment such as the restructuring period as today.
- Redefining goals: revising existing strategies and implementing them ever so that they can be redefined. Reassign the areas potentially profitable and long-term growth businesses to invest seriously in.
- Liquidation of unsuitable assets: due to changes in the long-term strategic direction and changes in key personnel, existing assets and resources of the business may be no longer in line with the new business context, they need to be liquidated so that businesses can invest more in new areas.
- Improve profitability: for businesses to improve profitability, they must first liquidate inappropriate assets as suggested above. The next step is to restructure the workforce, or roughly, to liquidate inadequate sources of labor; instead, new personnel, restructured

departments, and clearly redefined tasks and responsibilities for each individual and unit, avoiding unnecessary duplication. The final step is to strengthen the control and supervision of financial activities and operations of enterprises, focusing on the potential product lines with high profitability.

- Assignment (merger and acquisition): this issue involves changing the business structure mentioned and analyzed above.

Strategic alliance

Characteristics of strategic alliance

Analyzing the world's research literature on strategic management and strategic cooperation among firms in the international arena shows that there are many ways of understanding and perceiving strategic alliances and their definitions. Research books and reference documents have different approaches to strategic alliances, specific to their own. Here too, we come up with a unified definition that clearly defines the nature of this form of cooperation between businesses:

A strategic alliance is a long-term contract with a definite purpose between the business being signed on the basis of the principles of partnership and the appropriateness of the benefits derived therefrom. However alliance maintains organizational independence of the parties. Alliance has three following categories:

- **Non-equity alliances:** collaborative research, marketing and other activities that create value chains for partners in joint ventures.
- Joint ventures-involves the establishment of a third business unit.
- Minority equity alliance-partial acquisition that does not affect the independence of parties in the joint venture.

Each type of cooperation between enterprises has its own characteristics that differs it from the other types of cooperation. Forms of cooperation between enterprises have three following characteristics:

- Segmentedness-involves a certain part of the activities of the partners.
- Transfer of resources-involves physical resources (capital, raw materials, infrastructure) and non-material resources (know-how, technology, competencies, skills, relationships) that are contributed and shared by the parties.

- Integrity-changing some terms in the partnership agreement will not lead to changes in other factors.

The strategic alliance, in addition to the features mentioned above, has other distinctive features that distinguish it from other types of cooperation agreements that include:

- Both cooperation and competition-the alliance is a form of agreement both of cooperative and competitive nature.
- Long-term non-permanent contracts-alliances are a form of long-term contract, but not permanent, usually 05 to 10 years.
- Purpose of the alliance-partners in alliance are oriented towards certain common purposes.
- Independence-alliances ensure the organizational independence of the partners.
- Equal partnership-alliance is a partnership rather than a top-down relationship, except for voluntary cases for the common good.
- Joint management-parties have rights and obligations to participate in management.
- Active exchange of resources and information-alliances involving the exchange of resources and information in positive and bilateral manner among participating partners.
- Organizational flexibility and mobility-cooperative goals and strategies can also be adapted to the evolutions of the business environment.
- Multilateral co-operation-alliances do not only take the form of bilateral cooperation agreement but also the form of a multilateral cooperation contract that creates a network of links.

Motives of strategic alliance

In a strategic alliance, each participant has its own purposes, which are often very different. As a result, the motives for cooperation within the strategic alliance are also very different. In reference material from decades ago there has been much debate about the characterization, classification and ranking of cooperative motives in strategic alliances. The following is a proposal to classify these motives. The classification is often unclear, because motives are often mixed and belonging to different categories of criteria.

Table 31: Classification of motives in strategic alliance

Criteria	Classification of motives
Degree of generalization	Generic -Specific
Visibility	Visible -Invisible
Time range	Long term -Short term

Source: Own development

Generic motives

Based on the generalized motives analysis to move forwards to cooperation in the strategic alliance, we can divide them into seven groups:

- Risk limitation-for highly competitive industries or large projects that require enormous resources.
- Creating the effect of economic scale and rationalizing production-building a common rational and effective value chain along with certain economic scale effect.
- Technology and patent exchanges-they are essential for areas where large investments in research and development are needed, such as in the pharmaceutical or biotechnology industries. Thanks to alliance, product development can be carried out quickly and cost-effectively.
- Promoting competition-thanks to the alliance, businesses can build a stable and strong competitive position quickly and effectively than when doing it alone.
- Overcoming administrative barriers-when a country applies preferential policies to host countries, the alliance will help foreign businesses avoid tax discrimination, policy incentives, licensing, real estate trading, investments or certificates of all kinds.
- Access to international markets for inexperienced companies-this is the main way to expand into offshore markets for local businesses in underdeveloped regions, helping businesses reduce time, risks and costs.
- Gaining a vertical integration advantage through linking additional activities in the value chain of partners-each partner contributing different resources and values to the alliance.

Specific motives

Researches show that specific motive to involve in strategic alliance are as follow:

- Location of economic geography-characteristics of the market (size, potential, development trend), adjacent to other attractive markets, traffic junction and natural resources mines.
- Legitimate benefits-more tax-friendly or legislation-friendly countries (some countries are tax havens with surprisingly low rates of taxation), with less strict environmental protection or transfer pricing law.
- Attractiveness of tourism-the attractiveness of the landscape of ecological environment or cultural historical relics will attract investors to combine economic activities with convalescence for the whole family.
- Ethnic and family relationship-investors often choose the country in which they understand language, customs and people.

Visible and invisible motives

If the visible motives are easily to recognize, underground (invisible) motives are difficult to understand and may never be exposed even after the alliance is over. Partner in the alliance has both open and implicit motives. Exhibits are often presented in documents, contracts signed in the form of common goals to be achieved, or material and non-material contributions from allied parties. The underlying motives or goals are different, and the parties do not want to expose them while the alliance is taking place and even long after the alliance has ended.

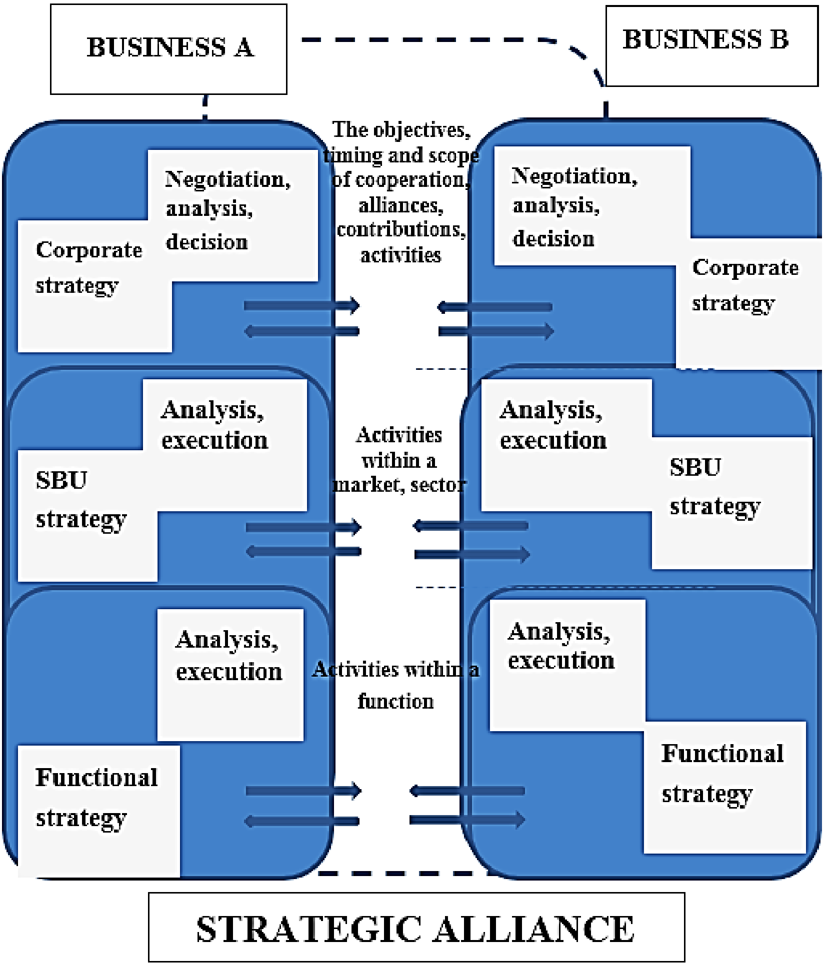
Short term and long term motives

As we all know, the alliance is aimed at long-term goals, so the motives in the coalition must be long-term motives. However, with long-term goals, these are short-term goals that are ancillary to tackle immediate problems such as addressing the need for short-term financing, staff training, support activities...

Strategic alliance in business strategy

Alliances have a certain position and are an integral part of the business strategy of enterprises. The strategic alliance is closely related to the activities at the management level in the enterprise as shown in the figure below.

Illustration 48: Strategic alliance in business strategy



Source: (Cygler 2002)

The parties agree on the objective of cooperation in the alliance, scope, types and characteristics of the two-way circulation of resources. The motivation of the alliance, in many cases, is the need to implement the strategic goals of the business: creating new standards in technology and governance, internalising skills and competence, entering new business areas, creating new values that in the long run will be the foundation of the unique competitive advantage and position in the market. Due to the strategic nature of the alliance (long-term, transfer of large core resources, co-operation and competition), agreements and decisions related to partner selection, alliance formats, scope and the scale of financial and organizational involvement are discussed and raised by top management and is closely related to the overall strategic direction of the business.

Coalition activities are also related to business policy at the level of the business unit. At this level, decisions regarding the scope of cooperation between product, market and professional partners are made and transferred to the higher level (company level). Analyzing the business development direction of the business units is the basis for setting and enforcing the goals of the product and market policy of alliance as illustrated below.

Table 32: Goals of strategic alliance and orientation of product-market policy

		Market	
		Current	**New**
Product	Current	Market Penetration • Effect of economic scale • Limited risk • Share and cooperate in marketing activities	Market Development • Conquer barriers to entry • Limited risk in business • Cooperation in marketing (especially in distribution and sales promotion)
Product	New	Product Development • Receive new technology • Receive new skills • Share and cooperate in marketing activities	Diversification • Knowledge transfer (learning from partners, acquiring new knowledge together) • Limit risks and costs of entry into new markets and new industries • Effect of economic scale

Source: Own development

Cooperation within the strategic alliance influences the formulation of development strategies of partners. A long-term sustainability alliance is an impetus for self-directed development partners in the areas of activity, market-product, as well as the search for new competitive advantages (core competencies). The results of the alliance will allow the business to make decisions on types of next alliance with other partners. In addition, strategic alliance strongly influences the changing perception on business. Increasingly, businesses with more partners will lead to the formation of network corporations that build their own strategy based on the alliance. The strategies of businesses will have a further perspective, with more scope, orientation and different types of cooperation.

Long-term cooperation between competing firms will distort the nature of the market, such as reducing the intensity of competition, increasing the potential of firms, and organizational changes such as the formation of network organization, focusing on the core competencies, the need to strengthen the coordination activities. These changes will make profound impact on the long-term strategy of the enterprise toward the direction and mode of business development and the process it has been formed.

Procedure for setting strategic alliance

US studies in the 1990s found that 75% of business executives identified the key success factor of a strategic alliance as selecting the right partner. The fact is that thorough analysis of the candidates will help to minimize costs for businesses and the risks that may be avoided in future cooperation. Failure to select partners will cause unpredictable consequences for the business. Therefore, companies attach great importance to choosing the most appropriate partner. Partner selection is a lengthy and multi-stage process. This process is introduced in the following diagram.

Illustration 49: Procedure for setting strategic alliance

Step 1: Decide on the establishment of a strategic alliance

This is the result of the analysis of business environment and processes taking place there such as: identification of goals and strategies, identification of the strengths and weaknesses of business, identification of the need for resources, aiming to implement the strategy successfully and effectively. If the results of the study of sectorial attractiveness, geographic area are positive, the next step will be to find answers to three questions about:

- Strategic alliance objectives-specific benefits related to current and future market positions, areas of activity, technology, and strategic resources. It is necessarily to select the target partners that do not contradict with us in term of the strategic objectives.
- How to achieve the objectives of the strategic alliance-based on the value chain of the partners to analyze their ability to contribute

material and non-material resources to achieve the goals of the alliance.

- The requirement for future partners in the alliance-the choice of the form of cooperation will entail certain benefits and costs. The more closely cooperative forms are the higher costs and greater expected benefits. If partners only care about cost issues in the alliance, they can ignore strategic opportunities, or face certain uncertainties when it comes to establishing and joining the alliance.

Step 2: Develop criteria for evaluation and selection of partners

To find the best partner, the enterprise must build a set of evaluation criteria. One of the ways to develop evaluation criteria is based on the concept of value chain, consisting of basic activities and supporting activities in the enterprise and the relationship between them. This is followed by an analysis of the ability to transfer quantifiable and unquantifiable values within the framework of horizontal and vertical linkages within an enterprise. Another method is based on the concept of key success factors (KSF) to identify strengths and weaknesses; factors outside the value chain of the business. Based on the analytical approaches above, the following table summarizes the set of criteria (including the characteristics and weight of each criterion) in order to evaluate objectively and comprehensively the potential of the enterprise in the strategic alliance.

Table 33: Criteria for assessing and selecting partner in strategic alliance

Criteria	Characteristics	Weight	Assessment
Leadership style			
• Strategic planning			
• Common vision and action			
• Recognize and respond to opportunities and threats in the business environment			
• How to communicate with external and internal organization			
• How to act			
• Adaptability of organizational structure			
• Technological virtue			
• The level, mission, and purpose of the organization			
• Organizational culture			
• Innovation and innovation			

Personnel			
• Who and how are they making key decisions?			
• Who are the core characters and what characteristics?			
• What skill of the employee is the source of competitive advantage			
Production, technology			
• Production capacity, scope and method of manufacture			
• Production efficiency			
• Production techniques are put into use			
• Investment policy in the field of production			
• Quality in production			
• The impact of the production process on the ecological environment			
• Sophistication of technology, modernity and			
• Innovation of existing and applied technologies			
• Ways to get new technology			
• Strategies for suppliers, reliability and			
• Benefits from relationships with them			
• Location of production plant			
Finance			
• Strong in financial management			
• Positive financial results after balance analysis			
• The long-term economic health of partners			
• Real expectations from the return on investment			
• Cost management			
• Value management in the enterprise			
Marketing			
• Experience in serving each market segment			
• Develop and enhance competitive advantage			
• Market orientation			
• Innovation in marketing strategies and tools			

• Expert in product and brand management			
• Expert in marketing-mix tools			
• Success in the field of bringing new products to the market			
• Succeeding in strategy implementation in operational activities related to the market			
Sales and customer care			
• Close trade relations with customers			
• Wide distribution network and dense			
• After-sales service organization			
• Time limit for warranty service			
Other factors			
• The partner's experience in cooperation in a strategic alliance or similar			
• The benefits of this partnership			
• Scope of the company's cooperation with other partners, if any			
• Level of participation and expertise within the framework of cooperation in the form of strategic alliances			
• adaptability of the partner's management and strategic system within the framework of the strategic, strategic and strategic requirements, types			
• Scope of activities of partners-areas, objects and domains			
• Market position (market share), sustainability and prospects in the near future			
• Location of partner office			
• Relationship with banks and other financial institutions			
• Relationship with authorities and target groups			
• Reputation of the business			
• Brand and image			
• The level of customer loyalty to the business and the product			

Source: Own development

The ideal partner with the highest score in accordance with the criteria above will help the business:

- Strengthen own competitive advantages.
- Develop and increase new competitive advantages.
- Possess additional resources that are of shortage (both material and non-material).

In addition, these partners have the ability to:

- Adapt to the company's existing management strategies and systems, resulting in increased levels of trust and understanding;
- Positively contribute financially and organizationally to operations of the alliance.

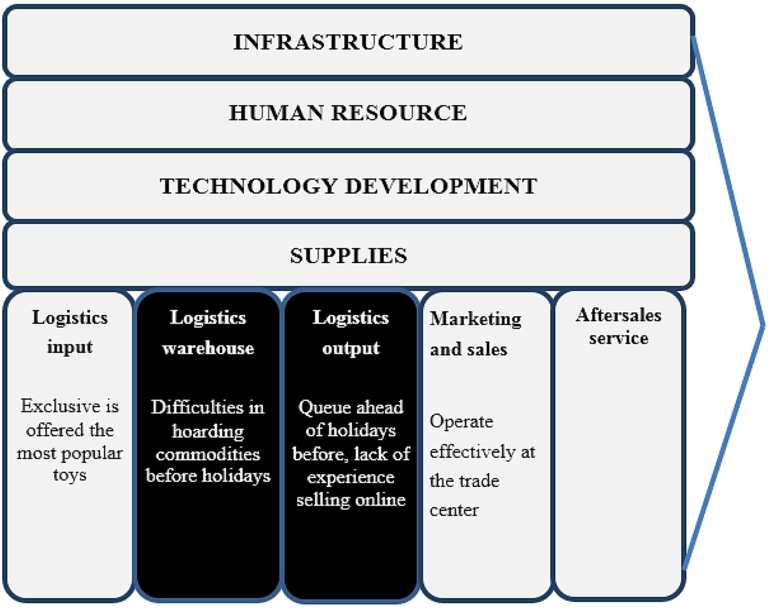
Step 3: Evaluate candidates and select partners

Like the steps in the recruiting process, the first step in evaluating candidates is, based on the set of criteria (assessing relevance to the criteria for an ideal candidate), briefly screen to select the group of candidates that fall into the more specific analysis round. In this round, candidates will be examined and evaluated in the following aspects:

- Objectives and expected benefits.
- Time and duration of the proposed coalition.
- Contribution of resources, value and type of contribution, location and time of contribution.
- Geographic and professional scope that the applicant is willing to cooperate.
- Candidate's core competencies in terms of usefulness and importance to the business.

The fact that one of the success conditions of a strategic alliance is the parallelism between the complementarity and the synergy of the resources and core competencies of the partners. The following is an example of a coalition that produces a synergistic bond based on the complementarity of resources, the alliance between the world's largest online bookstore Amazon.com and one of the world's largest toy retailers (beyond supplementary items such as clothing, baby items) the Toy "R" Us. Toy"R" Us' competitive edge is based on its ability to reach customers (owns many retail stores) and exclusive contracts with the world's most famous toy manufacturers (see in the figure below).

Illustration 50: Toys “R” Us competitive advantage

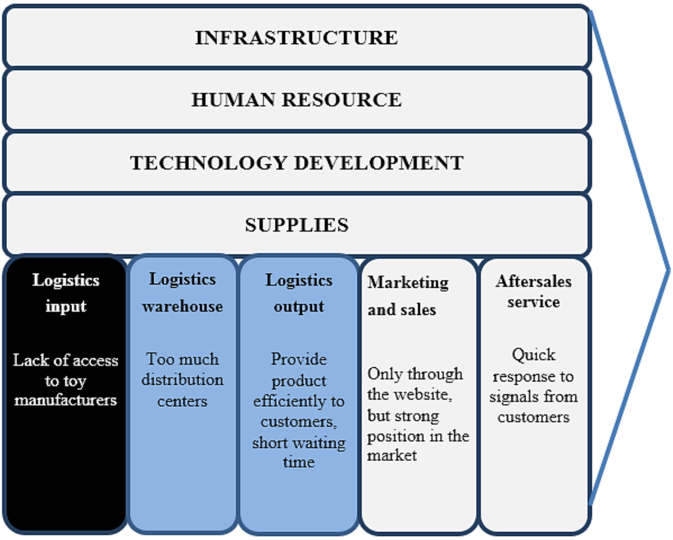


Note: Black cells-weakness

Source: (Cycler 2002)

Despite having extensive experience in the field of children's toys and one of the two largest retailers in the United States, Toy "R" Us has problem with its seasonal nature. The demand for this kind of products is well managed by warehouses and distribution, especially in peak periods like before Christmas. One of the solutions is to open more online stores as additional distribution channels. To achieve such goals, Toy "R" Us needs new skills related to logistics activities on the Internet. At the same time, Amazon.com is looking for ways to expand its activities to children's toys. Amazon.com is full of experience and capacity related to selling books, discs and video tapes across the world. Thanks to its logistics network and distribution centers, Amazon.com has become the largest retailer of books and tapes in the world (see the figure below).

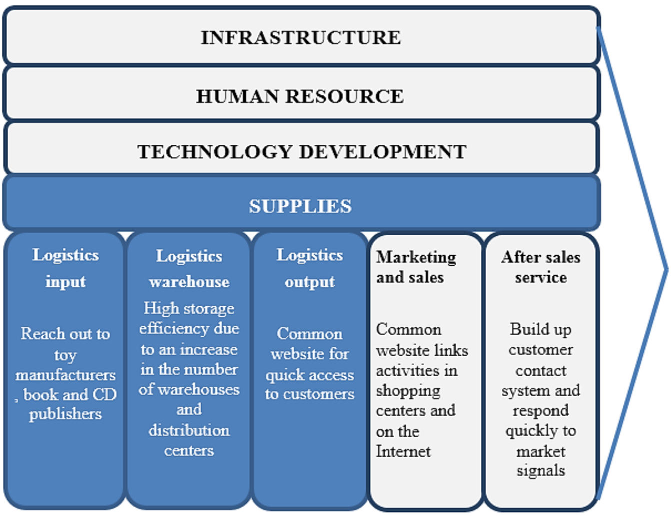
Illustration 51: Amazon.com competitive advantage



Notes: Black cells-weakness; blue cells-strength
Source: (Cygler 2002)

The value chain analysis of both companies shows that their resources and capabilities can be complementary to each other if they cooperate they will overcome each other's weaknesses and consolidate their existing competitive advantage (see pictures below).

Illustration 52: Amazon.com and Toy "R" Us competitive advantage

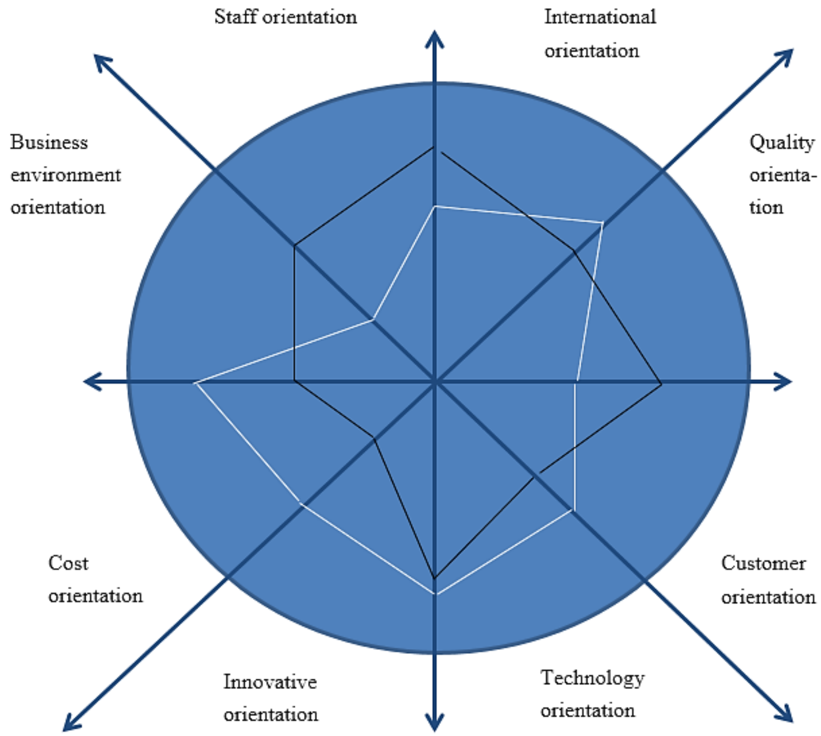


Source: (Cygler 2002)

As a result, both sides have created a common website (Internet shop), under a common brand for selling toys, games and baby items. Accompanying them, they collaborated in such areas as marketing, sales, warehouse management, logistics and after sales service.

Enterprises have the same need for resources, but if they are complementary, it is easier to form alliances. If companies need each other's resources, the alliance will have the opportunity to succeed. In addition, if alliance partners create a symmetrical system of scale and similar elements, the alliance, in addition to certain successes, can persist in a sustainable manner over time. In addition, cultural adaptability between partners will be a key success factor, creating more sustainability of the strategic alliance. This is also the reason why the alliance among Western enterprises is more successful than the alliance between Western and Japanese firms, despite the level of economic development in Japan and the West is similar to each other. Among Western countries, the percentage of alliances between businesses from regions such as the UK, Australia and North America has the highest levels of success. C. Brander and R. Pritzl also proposed looking at candidates from the point of view of cultural similarity. This proposal includes eight criteria that may threaten or facilitate future successful alliances: employee orientation, international orientation, quality orientation, customer orientation, technology orientation, innovation orientation, cost orientation, direction to the business environment (see picture below).

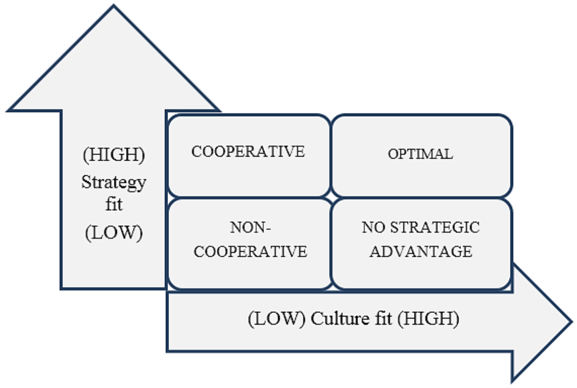
Illustration 53: Corporate culture-comparative analysis



Source: (Cygler 2002)

According to J. Child and D. Faulkner, choice of candidates and future success of the alliance lies in the adaptability of partners both strategically and culturally (see Illustration below).

Illustration 54: Matrix for culture and strategy fit



Source: (Cygler 2002)

An aspect to be further analyzed is that, in order to ensure that the alliance is successful company should avoid partners with internal problems, joining the alliance to address them. Participating in solving internal problems of partners will be very costly, time consuming and reducing the expected efficiency of cooperation.

The final step in evaluating and selecting partners for the alliance is to analyze the benefits and costs of future cooperation with each partner and find out the most profitable partners. The final choice belongs to and based on the agreement and consensus of the key stakeholders (major shareholders, trade unions, former partners of the company).

Step 4: Organize activities for newly formed alliances

The process of organizing activities for the newly formed coalition includes the scope of work divided into two phases:

- Creating the basis for cooperation among partners.
- Building the organizational foundation for the strategic alliance formed.

In the process of negotiating the terms of cooperation within the alliance, the following three basic principles must be considered:

a) Partnership principle

This principle pays special attention to the parity between the interests and responsibilities, the correspondence between the interests and costs of the parties in the coalition (alliance).

Rights and responsibilities relate to all aspects of the functioning of the alliance, they need to be clearly quantified to keep the alliance balanced otherwise one side will dominate the other.

Costs and benefits must also be clearly quantified (which is very difficult in practice) to be able to compare and find equilibrium so that the alliance is stable and durable. Otherwise there would be a risk of conflict between parties destroying the balance and causing the alliance to dissolve.

b) Sharing power

The parties within the coalition need to know the scope of their duties, powers, and responsibilities, what decisions they can and cannot make on their own. Sharing power clearly will make the coalition run smoothly, avoiding unnecessary conflicts and misunderstandings.

c) Delineation between project management and corporate management

Due to the inseparable nature of the alliance with the joint strategy of partnering enterprises, it is impossible to separate alliance management activities from corporate management activities. Business executives who are busy with their day-to-day work may neglect the work of the alliance, so it is important to clearly distinguish between corporate management and alliance management. It would be necessary to appoint a coalition management board consisting of co-recommended, internally suggested personnel or proposed by the consulting firm as the third party during the formation and operation of the consortium (alliance). The coalition government should have a certain level of power and operate in the interests of the coalition. In the enterprise, it is necessary to nominate a person responsible for the operation of the coalition, which will directly cooperate with the coalition management board.

Strategic alliance management

Coopers & Lybrand's research conducted in the 1980s found that partners spend only 4% of their time dealing with issues related to human resource management within the coalition. This is really a modest figure. Practices in the 1990s show that this issue is becoming more and more meaningful in building and managing coalitions. The scope and nature of the issues and decisions related to personnel management depend on following factors:

a) Goal of the coalition

This may be related to staff training and education both in terms of expertise and management skills, especially for alliances between enterprises from developed and developing countries. The ability to learn and acquire necessary skills, to develop core competencies in a professional working environment, to improve managerial and professional competencies is a compelling attraction for businesses from developing countries.

b) Structure of the alliance

For nonquity alliances, interactions between parties are limited, the scope and duration of bilateral co-operation is limited thus human resource management activities are only temporary. In a franchising alliance, learning and training is more frequent, involving technical aspects as well as soft skills and management skills. A joint venture follows a rigorous reorganization. Organizational culture, labor culture and reward system must be reorganized, re-evaluated to enhance staff loyalty. The issue of human resource restructuring is highlighted in the complementary alliance because the cooperation between staff members from parties of the alliance is on continual basis both horizontally and vertically. The alliance between Amazon.com and Toy "R" Us is just one example.

c) Asymmetry in the structure of alliance

Rarely the alliance holds the balance perfectly. Often the governing side, more or less, will impose organizational, human, technological, financial, operational solutions and decision-making for the alliance. This is usually beneficial for the alliance and for the dominated party once they are the recipients of the transfer of what most essential in the field of management and technology from the dominant party.

Among the human resources management issues addressed in the alliance, the selection of managers for the coalition and other key personnel is the predominant topic in the agreement on conditions for cooperation between the parties. This work involves two groups of criteria:

- The qualities and competencies required of the alliance manager
- The scope of responsibility of the alliance manager

The issues of quality and competence of the alliance management staff are of the utmost concern, after which new issues are raised regarding scope of their responsibilities. Here we only mention the qualities and competencies really needed for this strategic job. The following table will present a complete list of the characteristics the ideal alliance manager should have to ensure the continued success of the alliance activities.

Table 34: Criteria for strategic alliance leadership assessment

Qualities required	**1**	**2**	**3**	**4**	**5**
Vision					
Teamwork skill					
Management skills in multicultural environment					
Flexibility and ability to quickly identify changes					
Governance in volatile conditions					
Ability to build and manage information channels					
Loyalty level					
Interpersonal skills					
Negotiation and negotiation skills					
Ability to learn and communicate knowledge					

There is charisma for the masses					
Practical and flexible in action					
Creation					
Reliable					

Source: (Cygler 2002)

The vision of the alliance manager must be concretized and widely disseminated to all parties involved in a convincing way. Teamwork skills are important to guarantee the effectiveness of the work of the alliance manager in context of dynamic cooperation between the partners. Multicultural management skills are also very important because today alliance is conducted mainly between businesses from different countries and cultures. The alliance manager must know how to integrate personnel from different countries while respecting their own cultural identities. Intuition and inspiration are also important when the alliance manager has to make decisions quickly and decisively without using traditional or modern analytical tools. Next, the alliance manager must be flexible in action and in thinking to cope with unusual events or take advantage of the opportunities that suddenly come. The alliance manager needs accurate, useful and timely information. Therefore, the ability to build, operate and use information channels, both formal and informal in the alliance and among partners, is essential to effective management. To ensure the interests of the parties within the coalition, the alliance administrator must be loyal to the alliance without favoring any one partner. The alliance manager must have charisma, compromising skill to convince and positively impact all diverse staff members of the alliance. In a nutshell, the above characteristics of the manager have a very different impact on quality in alliance management, depending on the particular case.

Learning and building learning organization are also a category of human resource management. Through cross-sectional analysis of knowledge-based strategic alliances G. Hamel has identified five areas of learning and knowledge transfer:

Business environment of the alliance-analyze the business environment together and to find out common directions of the alliance.

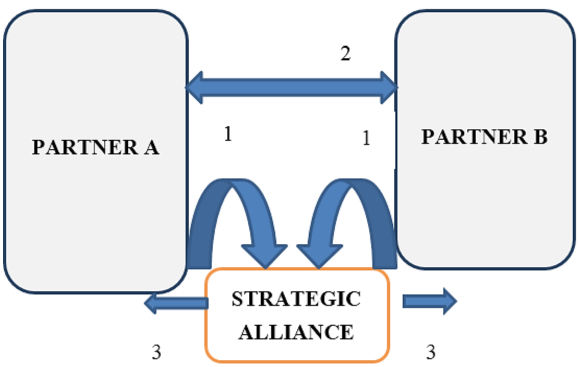
Work needs to be done in a collaborative framework-shared work would be more cost effective than doing it separately, even if additional costs involved, such as coordination activities within the coalition (including active, continuous and multi-dimensional communication between partners). Through this, partners will gradually grow and learn from each other through cooperation and succeeding together.

Capacity of the partners-partners need to quickly identify each other's unique capabilities and the relationship between those capabilities. This allows the parties to exploit and learn from each other, creating the foundation for finding and building new capabilities.

Actual objectives and claims of partners-learning can be made through observations and comments on the role of alliance in the strategy of the partners, identifying the functional scope of the alliance that is strategic for partners. Observing each other will allow parties to get to know each other, to come closer together, to understand each other's particularities and aspirations.

In the alliance, the parties can learn and approach each other's knowledge. In addition, parties can explore and create new knowledge in the process of managing and operating alliances that involves production and environmental protection technology, market knowledge and consumer behavior (see illustration below).

Illustration 55: Knowledge and skills transfer in strategic alliance



Note:

1. Contributing to the knowledge and skills of partners in the alliance.
2. Transfer of knowledge and skills among partners.
3. Transfer of knowledge and skills acquired from the alliance to the partners.

Source: (Cygler 2002)

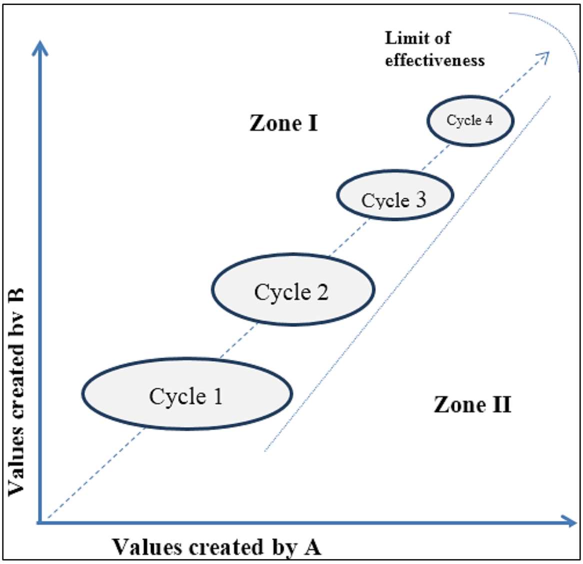
In fact, if the knowledge gained by parties from the alliance is of strategic significance to partners, the alliance will be highly stable and sustainable. The condition for the alliance, in addition to stability and sustainability, to bring about success for parties is the uniformity in learning and absorption of knowledge from the alliance, ensuring mutual interest for all sides, avoiding opportunistic behaviors. In fact, there are many examples of the imbalance in knowledge transfer, despite the relative balance of organization within an alliance is guaranteed in parallel. In the Japan-US alliance of the 1970s and 1980s, the Japanese side had the opportunity to learn and acquire knowledge from partners and allies rather than the United States. This led to conflicts that prevented the parties from cooperating on the basis of the conditions at that time.

There are certain barriers to receiving the knowledge and skills of the partners in the coalition. Capacity to receive knowledge is limited and it depends on the following factors:

- Quality and the ease of transfer (knowledge)-the hard knowledge of technology and manufacturing techniques is easier to transfer than what is known as tacit and soft knowledge.
- Ability to learn and absorb knowledge-related to determination and desire to learn with optimism and enthusiasm, the ability to acquire knowledge depends on cultural differences.
- Ability to actively apply knowledge-the ability to identify and observe changes that take place in the business environment, draw experience, absorb and use knowledge effectively, comprehensively and creatively.
- Experience in learning and applying knowledge-experiences and past successes (past coalition partnerships) will determine and contribute to the success of the next alliance.

The process of learning in an alliance can take place in certain cycles. The first is when partners are acquainted with each other's organizational, cultural, management and strategic differences, their potentials and resources, expectations and levels of mutual trust. As the cooperation within the alliance between the partners is tightened (second cycle), the degree of mutual trust and cooperation effect increased, the learning and knowledge transfer process takes place at a higher level, with greater power of synergy. In order to continuously increase the effectiveness and values of this learning process, it is necessary to reduce the asymmetry of benefits as well as the knowledge flow and multi-dimensional information among the partners.

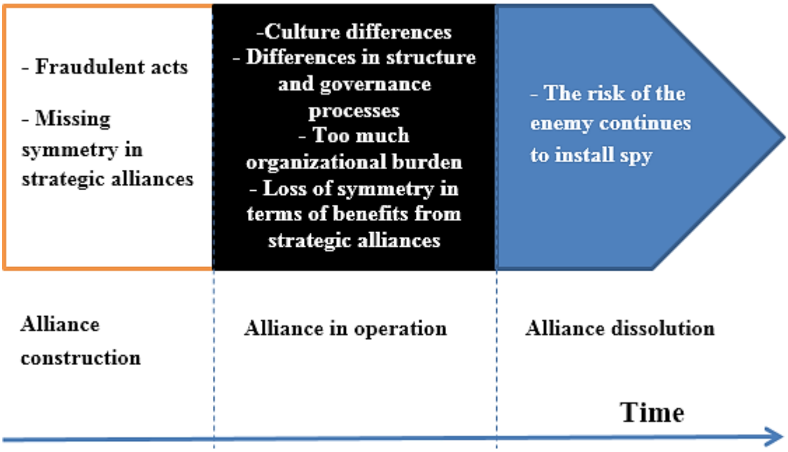
Illustration 56: Learning cycle of partners in strategic alliance



Source: (Cygler 2002)

In the strategic alliance, the above almost exclusively refers to the benefits it brings to the partners. In the task of managing alliances one must also take into account the worst situations, the potential risks before, during and after the termination of this partnership, measures to deal with and prevent them.

Illustration 57: Risks related to strategic alliance



Source: (Cygler 2002)

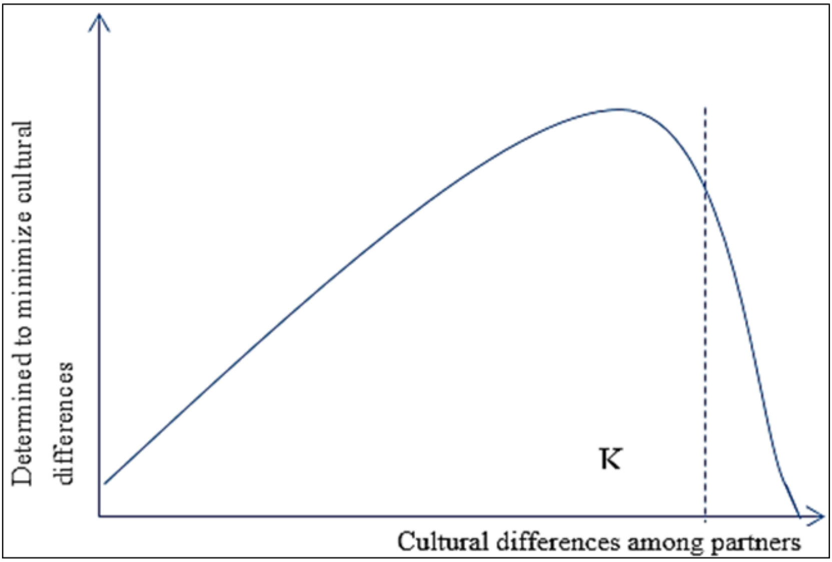
At the selection period and looking for partners

- Fraudulent acts-when the prospective partner wishes to go through alliance to access to the confidential know-how or technology and business information (or resources, mainly non -material) which the partner needs.
- Loss of symmetry in the alliance-asymmetric alliances are often cases of cooperation between large multinational corporations and small local partners. This imbalance (in terms of scale, magnitude, influence) will cause a risk of symmetry in the distribution of benefits and, in extreme cases, will inevitably lead to weaker partner acquisitions.

While the alliance is underway

Cultural differences-this is the result of globalization taking place in the world economy and will increase the linkages between businesses. Recognizing cultural differences, partners will find ways to adapt to each other. The greater the differences, the more determined partners are, the more effort and resources will be used to adapt to a certain point (K) when partners feel that cultural disagreement is too big and cannot find any remedies to bridge the cultural gap (see picture below).

Illustration 58: Cultural differences and determination to reduction



Source: (Cygler 2002)

Differences in structure and management process-partners in the coalition have different development histories, structures, and management processes. In those cases, partners will have difficulty in cooperation due to the division of authority and responsibilities, the decision-making and communication process at the management level. This will result in lengthy process of decision making, conflict, and performance limitation.

Organizational burdens-involve differences in the decision-making process, identification of issues such as management shortcomings, different level of bureaucracy and decentralization of organizational structure of the partners. This will put pressure on the alliance to make its success in the future is limited and the risk of dissolving the alliance to damage the partners is a reality.

Loss of symmetry in the interests of alliance-alliance partners are with different motives. In general, because of the nature of the alliance, partners with a longer-term vision will gain more benefits in the alliance.

After the alliance ends

Risk that the enemy will continue to install the spy – partners who can become the most fierce competitors, after the end of alliance, still use some of the common infrastructure, get the resources, each other's confidential information available before.

The following are some of the measures that can help partners minimize the risk of failure in the coalition:

a) Get to know each other well before embarking on a collaboration to minimize costs and unfortunate problems.
b) Selecting partners based on long-term goals, analyzing all supporting and opposing arguments.
c) Minimize the transfer of information at the earliest stages.
d) Parties must jointly set the goals of the alliance and the strategy to achieve them.
e) Nominating alliance management board which will be accountable to partners for activities in alliance and their effectiveness.
f) Strengthening the cohesion of the management boards of partners with the coalition management board, building mutual trust between partners for a stable alliance.
g) Benefits of joining the alliance must be quantifiable and shared equally among the parties in proportion to the contribution of resources to form the alliance initially and during the operation.

h) Learn from each other and get to know each other through their unique features, differences to cooperate more effectively.

i) Trust each other, but monitor each other as well as to confirm that trust.

j) Ensure effective communication between partners.

k) Have "control" points during the operation of the alliance to review progress so far, adding the necessary changes and adjustments, such as the conditions and the principle of cooperation, in order to ensure the benefits of the partners.

l) Clarify conditions for termination or dissolution of the alliance to avoid future litigation costs.

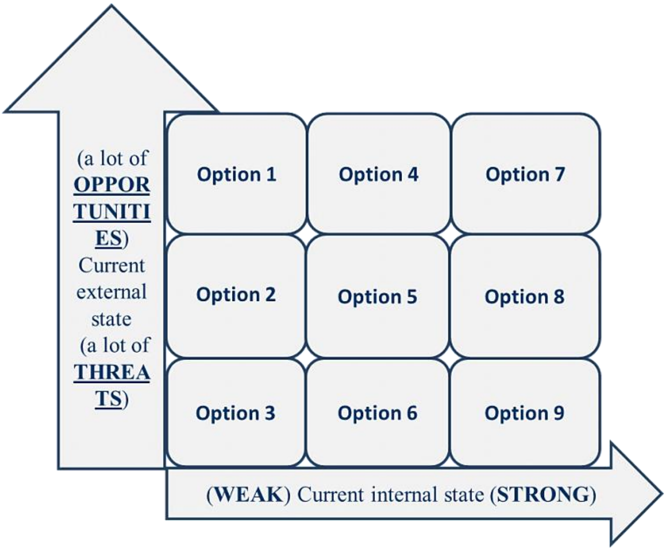
Instruments for strategic analysis

The goal of these business analytics tools is to provide overview of the company's long-term prospects as a structure of multiple independent business units, analyze the strengths and weaknesses of different business units as the basis for selecting the strategy to adjust this structure optimally and to propose new strategies for each business unit and their related functional strategies.

SWOT matrix

The very familiar SWOT matrix was presented in the previous sections, including the results of the analysis of internal strengths (S) and internal weaknesses (W) of business or business unit, the discovery of opportunities (O) and risks (T) belonging to general and industry related business environment. At a given moment, the business or business unit may have more strengths or vice versa-more weaknesses; identify and possess more growth opportunities or deal with more risks and threats. Based on the above two factors: the business unit is strong or weak (there are many internal advantages or vice versa), the business unit is facing more advantages or disadvantages in the business environment we can construct a SWOT matrix as follows and propose a strategy for the cells in the matrix:

Illustration 59: SWOT matrix



Source: Own development

The following are the strategic suggestions for each box (cell, option):

a) **Cell 1:** Position of ideal business units, strong competitive position, only a few of weak points, many attractive opportunities, low risk occurring.

Centralized growth strategy-exploit the current market with existing products of the business unit. This strategy applies when the organization culture, product quality and image of the business unit are maintained at the best level;

Strategy of backward and forward integration-when the inputs and outputs together with the business environment is stable. By adopting this strategy, it is possible to cut costs widely or introduce innovations in production;

Horizontal integration strategies (mergers, acquisitions, alliances)-when business units want to increase market share and competitiveness in the market.

b) **Cell 2:** Position of highly competitive business units in an environment with medium risk and opportunity. Business unit can grow by diversifying their products or expanding into industry-relevant sectors that are more likely to reduce business risk.

- Strategy of backward and forward integration-as above.
- Technology and market (concentric) diversification strategy-increase sales and profitability by developing new products, using existing or new technologies to serve current or new markets;
- Market (horizontal) diversification strategy-increase sales and profitability by developing new products, using new technologies to serve current or new markets.

c) **Cell 3:** Position of business units that are highly competitive but operating in a risky business environment.

- Technology and market (concentric) diversification strategy-as above.
- Market (horizontal) diversification strategy-as above.
- New product, technology and market strategy-increase sales and profits by producing new products with new technology to provide new markets.
- Strategy to give up or capital recovery-selling business units that are not managed effectively; withdraw from the market in the worst situations.

d) **Cell 4:** The position of medium-sized business units with an attractive business environment. Businesses must improve their competitive position to take advantage of market opportunities.

- Horizontal integration strategies (mergers, acquisitions, alliances).

e) **Cell 5:** Position of business units with average competitive position and average level of attractiveness of business environment.

- Horizontal integration strategy (mergers, acquisitions, alliances)-if the business unit wants to improve its competitiveness to continue to develop.
- Stable growth strategy-business unit's growth rate is the same as that of the industry. This strategy applies when profitability of the business unit is reasonable.
- Adjustment strategy-bring the business unit back on trajectory of activity according to existing potential. This strategy is applied if there is no way to increase the competitive position.
- Strategy to give up or capital recovery-selling business units that are not managed effectively. This strategy is applicable if there is

no way to increase the competitive position due to the deteriorating business environment.

f) **Cell 6:** Position of medium-sized business units operating in risky business environment.

- Stable growth strategy-if the risks in the business environment are temporary.
- Adjustment strategy-if these risks are still manageable.
- Strategy to give up and capital recovery-selling business units that are not managed effectively. This strategy is applicable if it is difficult to predict the risks which tend to increase and the business unit is uncertain about own chance for success.
- Strategy for technology and market diversification-if new industries have many opportunities and promises.
- Market diversification strategy-if new industries have many opportunities and promises.
- New product, new technology and new market strategy-if new industries have many opportunities and promises.

g) **Cell 7:** Position of business units operating in attractive environment but with weak in competitiveness.

- Adjustment strategy-restructure to improve the competitive position.
- Redirection strategy-if the business unit can not be adjusted.
- Harvest strategy-exploit what is left of the business unit which is no longer able to develop in the long run. This strategy is applied when business unit does not want to invest in improving their competitive position in the future.
- Strategy to give up and capital recovery-selling business units that are not managed effectively. This strategy is applicable if business unit cannot mobilize resources for further activities.

h) **Cell 8:** Position of weak business units operating in competitive environment with moderate risk and attractiveness. Similar to the above, the competitive environment of the business unit is less attractive, so business unit tend to divert business, harvest, give up or recover capital.

- Adjustment strategy.
- Redirection strategy.
- Harvest strategy.
- Strategy to give up or recover capital.

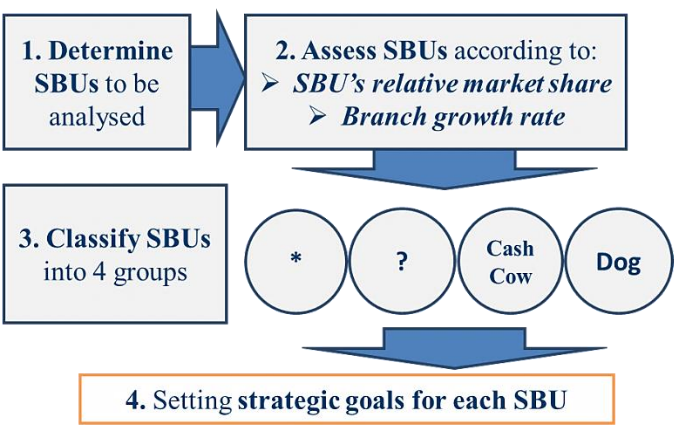
i) **Box 9:** Position of weak business units, operating in a difficult and uncertain business environment.

- Liquidation Strategy-there are no other options when the business unit is too poor to attract investors to harvest or recover.

BCG matrix

Also based on logic of SWOT matrix presented above, the BCG matrix (Boston Consulting Group), instead of basing on the criteria of the strengths (S)-weaknesses (W) of the internal environment of business unit, and the opportunities (O)-threats (T) of the external environment of business unit, BCG matrix builds on two factors: the growth rate of the industry and the relative market share of the business unit. Before going into the analysis of positions in the BCG matrix, we will present the steps of the analysis process of this matrix.

Illustration 60: Procedure of business analysis of matrix BCG



Source: Own development

Dimensions of matrix BCG

The market share of the business unit (SBU) is the proportion of that of business unit compared to that of the largest competitor. It determines the competitive position of the business unit is high or low.

- HIGH (ratio> 1)-advantage of cost and scale advantages.
- LOW (rate <1)-adverse competitive position;.

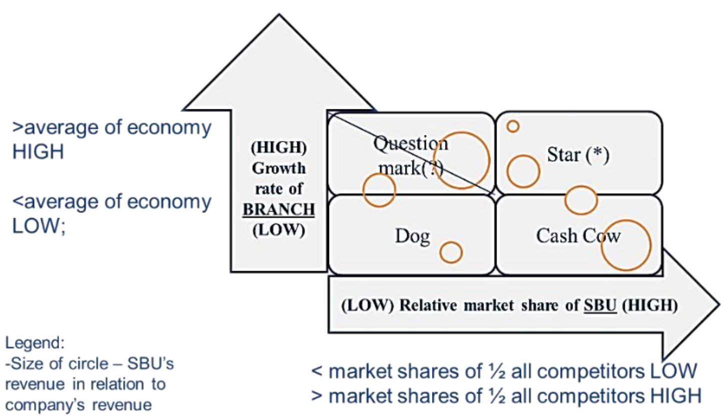
The growth rate of the industry-industry is growing, it creats many opportunities (favorable business environment, prospects); industry is in recession, it poses a threat to business unit.

- **HIGH:** Industry has growth rate faster than the average of the economy, average more than 10% per year;
- **LOW:** industry has growth rate slower than the average of the economy, average less than 10% per year;

Classification of business units

- Diameter-turnover of business unit versus the turnover of the whole company
- <X, Y> (X-relative market share, Y-growth rate)
- Question mark-low X, high Y; weak competitive position, high growth potential; should be invested to become a star (*)
- Star (*)-high X, high Y; good competitive position, high growth potential
- Cash cow-high X, low Y; good competitive position, low growth potential. There is no need for capital, but it gives substantial profit.
- Dog-Low X, low Y; weak competitive position, low growth potential; It need to invest big, but does not guarantee the return of investment.

Illustration 61: Matrix BCG



Source: Own development

Table 35: The meaning of strategic position in matrix BCG

	Market share	Profit	Investment	Cash Flow
Star	Retain and increase	Big	Significant	<0
Cash cow	Retain	Big	Insignificant	»0
Question Mark	Increase	<0	Significant	«0
	Withdraw	<0 or (>0&->0)	Insignificant and not necessary	>0
Dog	Withdraw	<0 or (>0&->0)	Insignificant and not necessary	>0

Source: Own development

Setting strategic goals for business units:

- Make profit from the SBU-cash cow to invest in the SBU-question marks (so that they become the SBU-stars) and consolidate the SBU-star.
- Give up some SBU-questions to reduce the pressure on investment.
- Get rid of the SBU-dogs.
- Towards the construction of a business portfolio consisting of SBU-cashcows (to fund investment opportunities), SBU-stars (potential for profitability) and SBU-question marks (prospects).

Advantages of the BCG matrix

- Orientation to sound business architecture (portfolio);
- Show how to use available financial resources to maximize the value of business structure (portfolio).

Disadvantages of the BCG matrix

- Assessing business units based on market share and sector growth is not sufficient, the McKinsey matrix will present some supplements;
- There is no clear relationship between market share and cost-benefit relationship. Many business units have a large market share, but this does not necessarily mean that the profit is high, it even mean the loss from selling below cost of production to recover capital for switching to other business.

New matrix BCG

Recognizing the weaknesses of the BCG matrix, in addition to its strengths, BCG consultants, referring to other business analysis matrices, have revised and proposed an improved version of BCG matrix. This improved BCG matrix is based on two groups of factors that are relevant to the existing competitive advantage and the ability to build competitive advantage in the future of business units.

The competitive advantage of existing business units, for example, relates to:

- The profitability that the business unit is likely to achieve.
- The scale of development of each business unit.
- The specialized capabilities of each business unit.

The ability to build competitive advantage in the future of business units, for example, relates to:

- Solutions to win competitive advantage.
- The prospects of each business unit in the future.

Based on the above two criteria, there are four strategic positions of the business unit in the new BCG matrix as follows:

Table 36: New type of matrix BCG

		Strategic advantage in competition	
		Not significant	**Significant**
Ability to create strategic advantage in competition	Much	Segmentation, diversification (A)	Specialization (B)
	Not much	Strategic impasse (D)	Scale of operation (C)

Source: Own development

Large-scale business unit (A): Business unit that has substantial competitive advantage but less likely to build on that advantage in the future. This type of business unit will expand its business scale with its unchanged business model. Typical example is retail market chains which have significant competitive advantages in marketing and distribution and continue to maintain this model in the future. If the online business model takes the throne and lead, this will be a big threat to this retail market chain model.

Specialized business unit (B): When certain competitive advantages at present have been achieved, the business unit will focus on research to increase its competitive advantage in the future, possibly through the specialization of certain business areas, it is really the current strength, based on the new model that is difficult to copy for competitors.

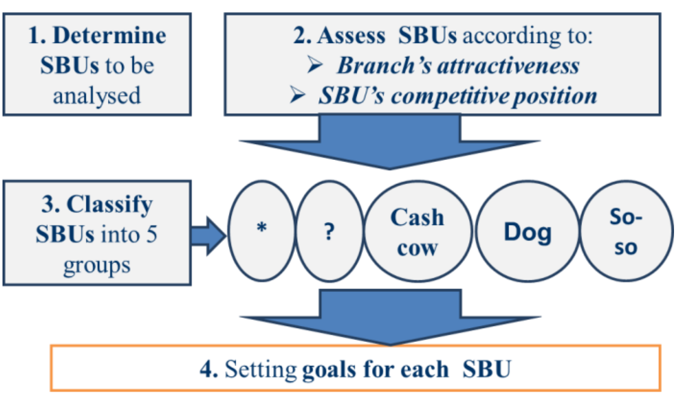
Differentiated business unit (C): Current business unit does not have a lot of competitive advantage, so it has to choose one or several from a limited number of areas to focus on to make difference, to promote new competitive advantages in the future.

Deadlocked business unit (D): Current business unit does not have a competitive advantage and either does not know how or lack the patience and do not have the resources to pursue business strategies to build competitive advantage in the future. These are business units that are in a stalemate, need to be reformed, restructured in many aspects thoroughly or be liquidated immediately to save costs and resources of the company.

Matrix McKinsey [1]

Also based on logic of matrix SWOT presented, McKinsey matrix (of McKinsey company), instead of basing on strengths and weaknesses (S and W) of the business unit, and the opportunities and threats (O and T) environmental risk of the business unit's external environment, instead of basing on two monotonous factors of the BCG matrix including growth rate of the industry and relative market share of the business unit there, builds on two sets of factors related to industry's attractiveness and competitive position of the business unit. Before going into the analysis of the positions on the McKinsey matrix, the following steps will be presented in the matrix analysis process:

Illustration 62: Procedure of business analysis of matrix McKinsey



Source: Own development

[1] Matrix Mc Kinsey is also called matrix General Electric (GE)

Industry attractiveness

- Determined by factors such as: size, growth, profitability...
- Sum of weights of all above factors = 1.
- Each factor scores from 1 to 5.
- Total weighted score of factors: 5 as the highest, 1 as the lowest, 3 as the average.

Table 37: Factors determining attractiveness of industry

Factors determining attractiveness of the industry	Weight	Point	Weighted point
Branch size	0.1	3	0.3
Growth	0.3	5	1.3
Profitability	0.2	4	0.8
Capital requirements	0.05	5	0.25
Stability of technology	0.1	5	0.5
Competition	0.2	3	0.6
Cyclicity	0.05	2	0.1
Total	1.0		4.05

Source: Own development

Competitive position of the business unit

Determined by factors such as: market share, technology, quality, after-sales service.

- Sum of weights of all above factors = 1.
- Each factor scores from 1 to 5.
- Total weighted score of factors: 5 as the highest, 1 as the lowest, 3 as the average.

Table 38: Factors determining competitive position of the industry

Factors determining competitive position of the industry	Weight	Point	Weighted point
Market share	0.15	5	0.75
Technology	0.25	5	1.25
Product quality	0.15	4	0.6
After sales service	0.2	5	1
Price	0.05	2	0.1
Cost	0.1	3	0.3
Production capacity	0.1	3	0.3
Total	1.0		4.3

Source: Own development

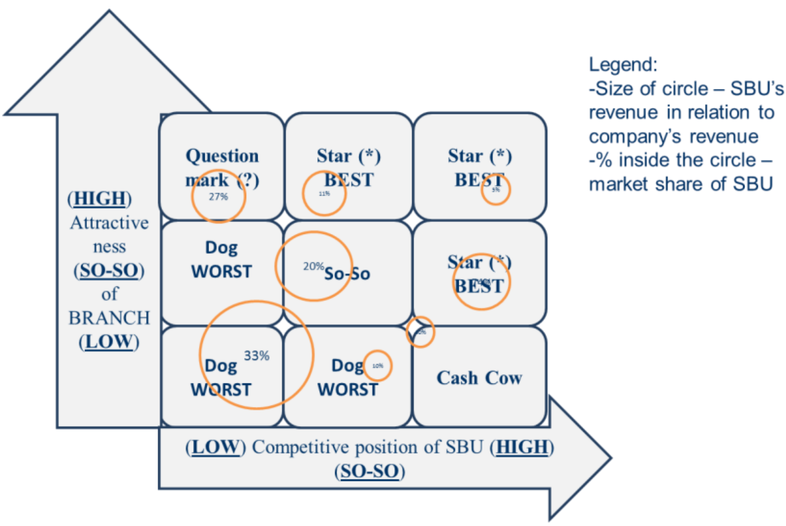
The McKinsey matrix is described as follows:

- X-axis (representing the competitive position of business unit): high (H), medium (M), low (L).
- Y axis (representing the attractiveness of the industry, each business unit can be in different industry): high (H), medium (M), low (L).
- Size of circle represents the size of industry (total sales) of which a part owned by business unit.

Business units will be classified as follows:

- SBU-best [Equivalent to SBU- * in BCG matrix]-(H, H), (H, M), (M, H).
- SBU-worst [Equivalent to SBU-dog in BCG matrix]-(L, L), (L, M), (M, L).
- SBU-?-(L, H) can become SBU-best or SBU-worst.
- SBU-cow money-(H, L).
- SBU-mean [not in BCG matrix]-(M, M).

Illustration 63: Matrix mckinsey



Source: Own development

Table 39: Matrix McKinsey (GE)-interpretation of the meaning and strategic move of each cell

		SBU competitive position		
		Low (L)	**Average (AVG)**	**High (H)**
BRAN-CH Attrac-tiveness	High (H)	*Analyze selectively the options* Focus on market gaps Understand the possibility of acquiring companies with significant strategic advantage	*Selective growth* Identify the weaknesses of the business Take advantage of inherent strengths Take the lead in the selected segments	*Investment and growth* Try to dominate the market
	Average (AVG)	*Profit maximization* Focus on market gaps and/or prepare to withdraw from the market	*Analyze selectively the options* Selective investments Market segmentation	*Selective growth* Evaluate market segmentation capabilities Try investing in the highest pro-mising segment
	Low (L)	*Withdraw from the market*	*Profit maximization* Minimum investment Limit the product lines and prepare to leave the market	*Analyze selectively the options* Maintaining mini-mum investment Maximizing cash flow

Source: Own development

Determining the strategic objectives for each business unit

- Consolidate SBU-best business units; invest in SBU-question mark business units (to become the SBU-best business units) with financial sources coming from SBU-cash cow business units.
- Invest or abandon SBU-medium business units.
- Abandon the SBU-worst business units.

Advantages and disavantages of McKinsey matrix

The dominant feature of the McKinsey matrix, compared to the BCG matrix, is that the classification of business units is based on a variety of elements which may vary by industry. In contrast, the disadvantages of the McKinsey matrix are as follows:

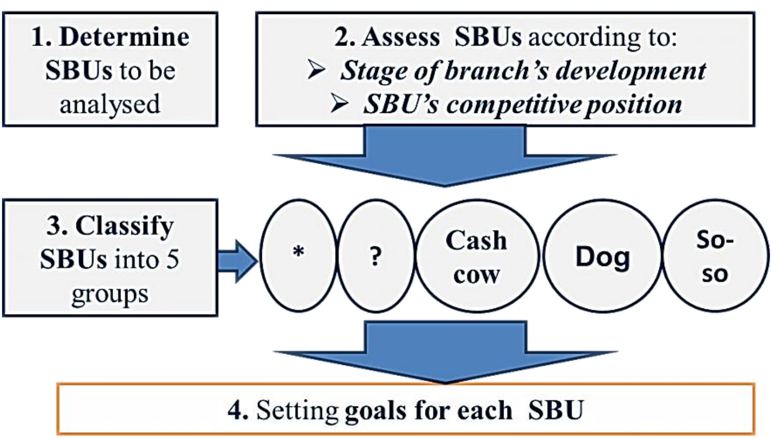
- Weight and score are of subjective factors.
- The position of business units may vary depending on the stage of development of each sector.

Just like the BCG matrix having an improved version, the McKinsey matrix has many different versions, depending on the characteristics of each business. These versions may have been made by businesses or by consulting firms for professional analysis. They are subjects of change, and if they show the usefulness and relevance, they are used extensively in analysis and become popular tools among academics, researchers and experts in strategic planning and analysis around the globe.

Matrix Hofer

Also based on the logic of SWOT matrix presented above, the Hofer matrix, instead of basing on the criteria of strengths and weakness (S and W) in internal analysis and on criteria of opportunities and threats (O and T) in external environment analysis of the business unit; instead of monotonous nature of the BCG matrix, including sector growth and market share relative to the business unit in the industry; instead of basing on two sets of factors related to the development phases of the industry (rather than the attractiveness of the industry as in the McKinsey matrix) and the competitive position of business unit in the industry; Hofer matrix allows us to overcome a serious weakness of the McKinsey matrix, without regard to the changing competitive position of business units depending on the stage of development of the industry. Before going into the analysis of the positions on the Hofer matrix, the following steps will be presented in the Hofer matrix analysis process.

Illustration 64: Procedure of business analysis of matrix Hofer

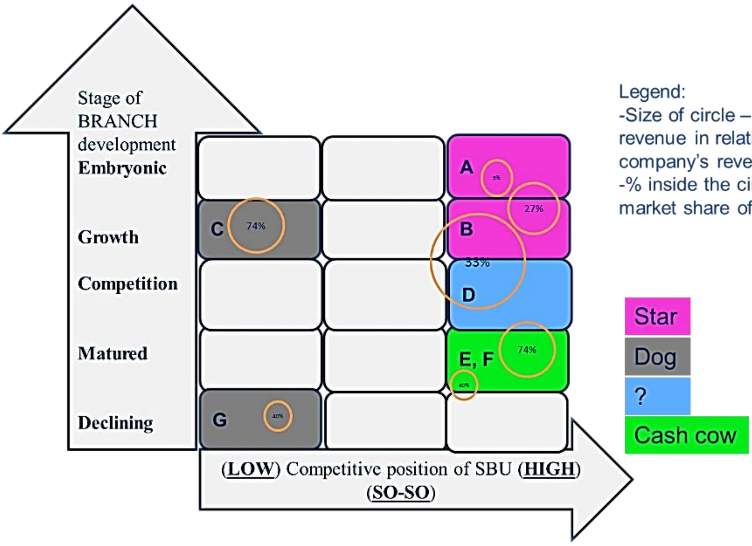


Source: Own development

The Hofer matrix is described as follows:

- X axis (competitive position of the business unit): High (H), Medium (M), Low (L).
- Y axis (stages of industry development): embryonic (E), growth (G), competition ©, maturation (M), degradation (D).

Illustration 65: Matrix Hofer



Source: Own development

Business units' classification

According to the Hofer matrix the business units will be classified as follows:

- SBU-A (H, E), SBU-B (H, G)-equivalent to SBU- *
- SBU-C (L, G), SBU-G (L, D)-equivalent to SBU-dog
- SBU-D (H, C)-equivalent to SBU-?
- SBU-E (H, M), SBU-F (H, M)-equivalent to SBU-cash cow

Note: E-Embryonic, G-Growth, C-Competition, M-Maturity, D-Decline.

L-Low, H-High.

Identify strategic objectives for business units:

- Maintain SBU-A and SBU-B business units.
- Invest heavily in SBU-D business units (to become SBU-A and

SBU-B business units) from the profits generated by SBU-E, SBU-F business units.

- Abandon SBU-C and SBU-G business units.

Advantages and disadvantages of matrix Hofer

The main advantage of the Hofer matrix is that business structures can be evaluated and changed over development phases of the industry, which the prior matrices do not take into account. The disadvantage of the Hofer matrix, on the other hand, is that not only does the development of the industry show its attractiveness; the policies of stimulating and regulating the development of the industry can change the attractiveness of the industry. It does not depend on the stage of its development.

Summarizing the matrices presented, the SWOT matrix, the BCG matrix, the McKinsey matrix, and the Hofer matrix, we can highlight some of the unique advantages and disadvantages of this kind of business analysis tools.

Advantages of business analysis tools:

- Analyze activities in various areas of the company.
- Demonstrate investment-profit relationships in different areas.
- Identify changes to an optimal business structure.

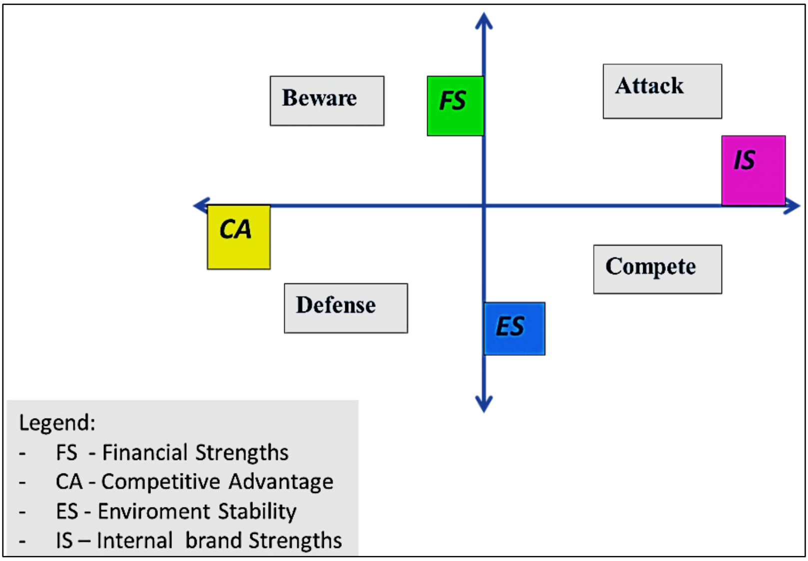
Disadvantage of the business analysis tools:

- When the number of business units is too large and they operate in many different fields.
- When business units cover a number of interrelated sectors (diversification will lead to positive or negative synergy between business units)
- When business units have a strategic relationship (good business units can not survive without a business unit that is losing money and needs to be dissolved)

Matrix space

SPACE (Strategic Position and ACtion Evaluation) matrix is a strategic position matrix and performance evaluation. The SPACE matrix shows that a business should choose a strategy: attack, beware, defend, or compete. The SPACE matrix has following meanings:

Illustration 66: Space matrix



Source: Own development

To set up a SPACE matrix one need to perform the following steps:

- **Step 1:** Select the elements of the four groups representing the financial strength of the business (FS), the competitive advantage of the enterprise (CA), the stability of the environment (ES), and the strength of the industry (IS). Here are some of the criteria used to represent SPACE matrices:

Financial strength:

- Return on capital
- Debt balance
- Liquidity
- Rotate capital
- Cash flow
- Easy to withdraw from the industry
- Risk in business

Competitive advantage:

- Market share
- Product quality

- Product life cycle
- Customer loyalty
- Use capacity in competition
- Technological know-how

Control of competitors and distributors

- ...

The business environment is stable

- Technology change
- Inflation rate
- Change of demand
- Competitive price
- Barriers to market entry
- Price elasticity of demand

The strength of the industry

- Potential growth
- Potential profit margin
- Financial stability
- Technological know-how
- Use of human resources
- Scale of capital
- Easy to penetrate the market
- The role of productivity, capacity
- **Step 2:** Assign from +1 (worst) to +6 (best) value for each of the FS and IS elements, assigning from -1 (best) to - 6 (worst) value for each of the ES and CA elements.
- **Step 3:** Calculate the average score for the FS by adding the assigned values to the elements, and then dividing by number of elements selected for the FS. Similarly calculate with the average score for IS, ES and CA.
- **Step 4:** Write the average scores for FS, IS, ES, and CA on the appropriate axis of the SPACE matrix.

- **Step 5:** Add the scores on the X axis and mark the result point on the X axis, doing the same with the Y axis, then define the intersection of the two new points on the XY axis.
- **Step 6:** Draw a vector from origin of the SPACE matrix through the new intersection. This vector gives the type of strategy for the business: offensive, competitive, defensive or cautious.

Matrix QSPM

After using the SWOT matrix to develop appropriate strategies, executives will list a list of possible strategies that the business can do in the near future. At this stage, a tool that can be used to select a strategy is the Quantitative Strategic Planning Matrix (QSPM). The QSPM matrix uses input data from analyses of IFE and EFE matrix formation steps to help pick out among alternatives the most attractive and rewarding strategy for businesses to pursue to successfully implement their goals.

The development process of the QSPM matrix consists of 6 steps:

Step 1: List the major external threats/opportunities and key strengths/weaknesses in column (1) of the matrix. These elements are taken directly from the EFE and IFE matrices.

Step 2: In the column (2) of the matrix fill in the numbers corresponding to each element in the classification column of the EFE and IFE matrices.

Step 3: Study SWOT matrices and identify alternative strategies that organizations should consider to implement, recording these strategies in the top row of the QSPM matrix. These strategies are grouped separately, if there are groups.

Table 40: QSPM matrix

<table>
<tr><th rowspan="3">Important factors (1)</th><th rowspan="3">Classify (2)</th><th colspan="6">Substitute strategies</th><th rowspan="3">The basis of attractive point</th></tr>
<tr><th colspan="2">Strategy 1</th><th colspan="2">Strategy 2</th><th colspan="2">Strategy 3</th></tr>
<tr><th>A</th><th>B</th><th>A</th><th>B</th><th>A</th><th>B</th></tr>
<tr><td>Internal:
1.
2.</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>External:
1.
2.</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Total:</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Source: Own development

Step 4: Determine attractiveness' points: Very unattractive = 1, less attractive = 2, attractive = 3, attractive = 3, very attractive = 4. These values indicate attractivenss for each strategy compared to other strategies in the same group of alternative strategies.

Step 5: Calculate the total number of attractiveness' points for each strategy separately for each of the key success factors in column (1) by multiplying the number of points by the number of attractiveness points in each row.

Step 6: Accumulate attractive points that gives a total of points for each strategy (taking into account all relevant internal and external factors that may affect strategic decisions). The higher the score, the more appropriate the strategy and the more desirable it is to perform.

In principle, a QSPM matrix may consist of any number of alternative strategies groups and within a given group may include any number of strategies, but only strategies within the same groups are evaluated together. For example, diversification strategy group may include concentric diversification strategies (already presented above), diversification of aggregates (a strategy for increasing sales and profitability through develop new products according to new technologies to meet new markets), while another strategic group may include vertical (forward or backward) and horizontal integration. These strategy groups are different and the QSPM matrix only evaluates strategies within the same group.

Matrix CPM

Competitive Profile Matrix (CPM) allows us to identify the major competitors with their advantages and disadvantages. This matrix is a synthesis of external factors (EFE) and internal environmental factors (IFE) matrices to compare competitors in the industry.

Establishing this matrix aims to provide a comparative assessment of the company with its major competitors in the industry, a comparison based on factors affecting the competitiveness of the firm in the industry. It gives managers a sense of the company's strengths and weaknesses over its competitors, it determines the company's competitive edge, and weaknesses that need to be addressed. To build a competitive profile matrix, one need to take five steps:

- **Step 1:** Make a list of about 10 major factors that have a significant impact on the company's competitiveness in the industry.
- **Step 2:** Sort the importance from 0.0 (unimportant) to 1.0 (very important) for each factor. The importance of each factor depends

on the extent to which it affects the competitiveness of the company in the industry. The overall importance score of all factors should equal 1.0.

- **Step 3:** Determine the weights from 1 to 4 for each factor, the weight of each factor depends on the company's ability to build and consolidate that factor, of which 4 is good, 3 is ever average, 2 is average, 1 is weak.
- **Step 4:** Multiply the importance of each factor to its weight to determine the score of the factors.
- **Step 5:** Sum the scores of all the factors to determine the total score of the matrix.

A competitive profile matrix allows us to compare the total score of a company with its major competitors in the industry to assess its competitiveness in the industry.

Table 41: Vinamilk's matrix CPM

Success Factors	Import-ance	Vinamilk		Dutch lady		Lothamilk	
		Rated	Important point	Rated	Important point	Rated	Important point
Competitive price	0.1	4	0.4	4	0.4	3	0.3
Distribution network	0.15	4	0.6	4	0.6	2	0.3
Managing the sales mechanism	0.05	3	0.15	3	0.15	3	0.15
Product quality	0.2	4	0.8	4	0.8	4	0.8
Financial capability	0.1	4	0.4	4	0.4	2	0.2
Infrastructure	0.1	4	0.4	3	0.3	2	0.2
Marketing team	0.1	4	0.4	4	0.4	1	0.1
The flexibility of the organization	0.05	4	0.2	4	0.2	3	0.15
Understanding the market	0.05	3	0.15	4	0.2	2	0.1
Advertising effect	0.1	4	0.4	3	0.3	1	0.1
Total	1.0		3.9		3.75		2.4

Source: Own development

Matrix IE

The Internal Matrix (IE) sets the different business units of an enterprise on a nine-cell table. This matrix is based on two main aspects:

The total number of critical points of the IFE matrix shown on the X axis

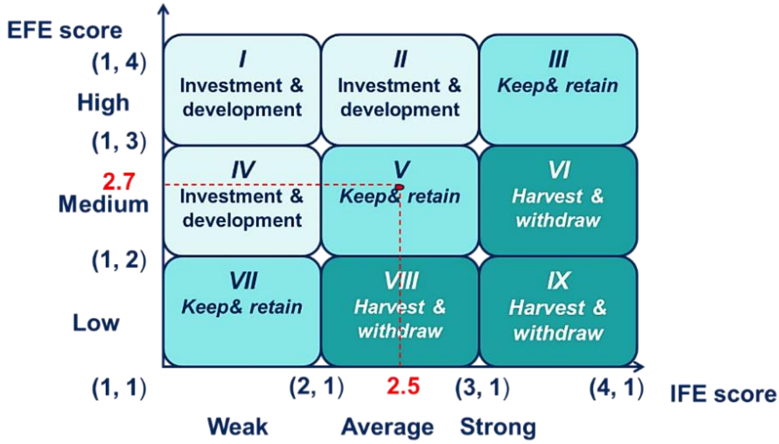
- If the total score of 1.0-1.99 is weak.
- If the total score of 2.0-2.99 is average.
- If the total score from 3.0 to 4.0 is strong

The total number of important points of the EFE matrix shown on the Y axis

- If the total score of 1.0-1.99 is low
- If the total score of 2.0-2.99 is average
- If the total score from 3.0 to 4 is strong

Each business unit must set up an IFE and EFE matrix, and on that basis set up the company's IE matrix.

Illustration 67: Matrix IE



Source: Own development

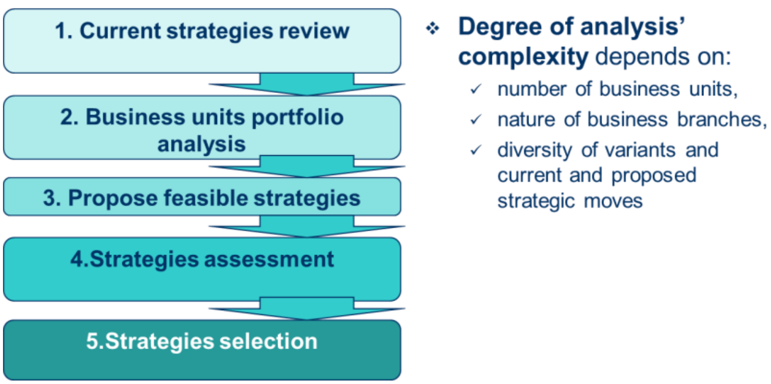
For the positions of the business units the following strategies will be proposed:

- If business unit is located in boxes II, II, IV, it should be developed and promoted.
- If business unit is located in boxes III, V, VII, it should be held and maintained.
- If business unit is located in boxes VI, VIII, IX, it should be harvested or discarded.

Procedure for strategic analysis

Business strategies are solutions that help enterprises achieve their desired goals as planned. Choosing the right business strategy should be based on analysis of the business environment in which enterprises are operating; analyzing the business units' portfolio, current strategies are changed and new strategies are proposed. Next, choose strategies are most feasible and put them into practice. The process of analysis and selection of business strategies presented below may be very simple or very complicated depending on the number of business units in the portfolio, the complexity of the industries and areas of activity, the diversification of current and proposed alternatives and strategies.

Illustration 68: Procedure of business strategy analysis and selection



Source: Own development

Step 1: Review current business strategies

Assess the suitability of current business strategies of business units with their business environment, detect changes to timely adjust those business strategies. Enterprises need to evaluate themselves in terms of the following aspects:

- The level of diversification of the current business.
- Characteristics of the business units to be eliminated and acquisition of new ones.
- Adaptability of existing business strategies.
- New opportunities in the business environment.
- New threats in the business environment.
- The system of existing objectives of the business.
- How to allocate resources within the enterprise.

Step 2: Analyze the list of business units

The choice of analysis tools to analyze the business units' portfolio depends on: the existing information system on the business environment, the characteristics of business unit that needs to be analyzed, habits and preferences of managers who use business analysis tools. We can choose among the eight matrix proposed and presented above: SWOT matrix, BCG matrix, McKinsey matrix, Hofer matrix, SPACE matrix, QSPM matrix, CPM matrix, IE matrix and other reference analysis tools, if effective. Businesses can also innovate or create new analysis tools such as Quaker Oats matrix based on improvements and upgrades of the BCG matrix presented earlier. The following are the steps in the process of analyzing the list of business units:

a) Establish a committee to analyze the list of business units
b) Identify the business units to analyze
c) Selection of business analysis methods
d) Collection and analysis of necessary data
e) Analysis of the list of business units

- Determine the current and prospective position of each business unit (in different industries) on the matrix.
- Analyze the distance between the current and the prospective position of each business unit.

Step 3: Propose feasible strategies

First, it is necessary to consider the factors that affect the business units to propose strategies for moving these units from current to prospective positions and functional strategies entailed:

- The position of the industry in the economy.
- The position of the business unit in the industry.
- The objectives of the business.
- Guidelines of senior leaders.
- Competencies of staff at all levels.
- Financial resource.
- Dependence on external partners.
- The impact of the stakeholders.
- The right time to implement the strategy.

Step 4: Evaluate the strategy

The proposed strategies can be evaluated based on the following criteria, which may be removed or added to the list according to the needs and perceptions of the management board:

- Adaptability of the strategy to the business environment.
- The suitability of the strategy with organizational culture, business philosophy and core values.
- The suitability of the strategy with existing processes and current resources.
- The ability to accept and bear risks during the implementation of the strategy.
- The feasibility of the strategy.
- There are other suitable strategies to replace or not.

Step 5: Select the strategy

Based on the results of the strategic assessment proposed above, managers will decide which strategies to choose for their businesses, their business units, and their functional areas. These strategies will then be officially announced in conjunction with the implementation plan and resource allocation plan for all levels and departments within the enterprise.

4.2.3 Business units' strategy

The strategic business unit (SBU) is a wholly-owned subsidiary of parent company, independent, self-control and self-financing. This section will address, present, classify and analyze competitive strategies at the level of business units, which directly produce goods and provide services, directly compete with each other in the market and create value for the company.

Basic strategies and strategic moves

Based on two criteria, that is, first, the company (or business unit) can base its competitive advantage on low cost or differentiation compared to other competitors. Secondly, the company can spread out along target markets or focus on one or several key markets. Combining these two criteria, we have four basic competitive strategies:

- Cost leadership strategy.
- Differentiation strategy.
- Focus and cost leadship strategy.
- Focus and differentiation strategy.

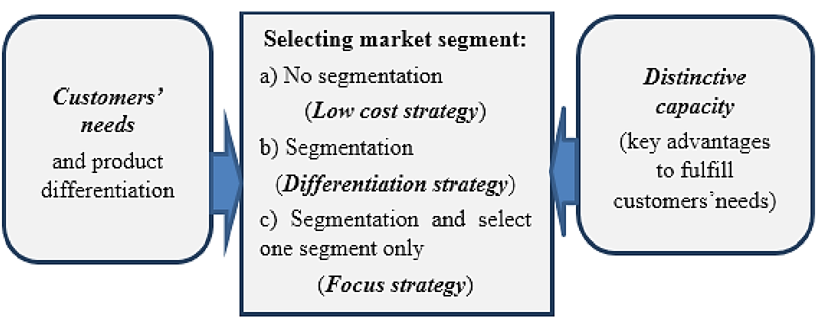
In addition, there is a mixed strategy, due to the needs of customers and the current market trend, which is a reasonable low cost and differentiation strategy.

Illustration 69: Basic competitive strategy

Source: Own development

The choice of strategies to ensure economic success, such as revenue, market share, and profitability must be based on the needs of customers and company's existing competencies. Depending on the target market and time, customers may have diverse needs related to product quality and differentiation. Distinctive capability is enterprise' existing strength (it creates competitive advantage and the lay foundation for a given competitive position) to satisfy the needs of customers in different target markets. We can choose low-cost strategy, without target market segmentation, as this is a homogeneous market and apply mass marketing strategy. We can choose differentiation strategy, divide the target market into different segments, apply different marketing strategy to each of segments. Next, we can choose the focus strategy that is to segment the market to select only one or several segments to focus on serving the customer thoughtfully.

Illustration 70: Selecting competitive strategy



Source: Own development

Low cost strategy

The goal of the low-cost strategy is to create low-cost products and services that compete with rivals at the lowest price while keeping the same level of profitability. If there is a price war among competitors or the price pressure of input suppliers is too large for the industry, the company still has a certain advantage over other competitors.

Advantage:

- Higher profits than competitors so company will be less affected by market shocks.
- Due to low cost strategy, the company targets the majority of middle-class and low-end customers with huge demand for product that gives more advantage in scale, capacity and possibility to negotiate with input suppliers over price.

Disadvantage:

- How to produce at a lower cost than the competitors as they tend to cut operating and production costs.
- Low-cost model is easy to copy, because it does not require other competitors to have specific capabilities.
- It is still necessary to differentiate and maintain quality in parallel with ensuring low costs due to increasing living standards and consumer demand and the pressure to meet quality standards provided by associations protect interests of consumers.

Differentiation strategy

The goal of the product differentiation strategy is to gain competitive advantage by producing unique product lines that satisfy the needs of customers in a way that is superior to that of competitors. By adding value to the customer, business can offer desirable price, which customer can still accept, to achieve sales and profits above the industry average.

Advantage:

- Customer loyalty with the brand because brand products meet the needs of customers in the best way;
- The risk of competition is relatively low, if the difference is maintained at a relatively high threshold.

Disadvantage:

- It depends on the ability to maintain distinctiveness and uniqueness, so it is always necessary to innovate and be ahead of competition. This requires high costs and is not always feasible.
- The company must recognize the difference which is not necessary to avoid investing in it without bringing value to customer.
- The company must be flexible, dynamic and sensitive to changes in the needs and tastes of customers.

Focus strategy

Focus strategy is low cost strategy or differentiation strategy in a selected market segments. For example, in the consumer market of night diners, the company may adopt a low-cost strategy for nighttime workers who need to have a meal late at night, after hours of hard work. The company can also apply differentiation strategy to customers, who are "real players" in the bar, discotheque, they also need to eat after the party all night long.

Advantage:

- Company understands the segment of customers and takes appropriate actions, as described above.
- Company can concentrate all resources to implement the business strategy for good.

Disadvantage:

- Company can not quickly change its chosen target market once all resources have been gathered.
- Company may be forced to change its target market due to change of technology, needs, preferences, customer preferences, and the target market itself may no longer be attractive.

Differentiation & reasonable cost strategy

Differentiation & reasonable cost strategy is also known as mixed strategy. In this mixed strategy, customers will be provided with superior value over the purchase price of the product. To accomplish this strategy, the business unit must have all the resources, know -how, technology and marketing, and must manage the costs closely and effectively to build at the same time two competitive advantages.

Advantage:

- The company may have more customers, because some customers favor low cost products and enjoy a bit of differentiation, some prefer differentiation and to buy with moderate price. These customer groups will shift from purchasing at competitors to purchase at company.

Disadvantage

- The company may lose customers because some customers may favor low cost products only while some prefer differentiation only. These lead customers will switch to purchase at competitors with consistent business strategies.

Table 42: Business strategy comparison

Basic strategies comparison	Low cost (cost leadership)	Differentiation	Concentration (focus)	Low cost and differentiation
Level of differentiation	Low	High	Low or high	Modesty
Market segment	Low	High	Low or high	Modesty
Specific strength	Production, labor cost, material	R&D, marketing, brand, distribution,	Any strength	Combination of many strengths

Source: Own development

Strategic move-price and quality

Based on two criteria: cost and quality (compared to the average of competitors) we have four strategic options as follows:

Market penetration-strategy that seeks market share and builds its position in the fastidious markets of the United States. This is a long-term strategy because it requires businesses to operate at low cost to stay on the market. Toyota is one example of market penetration, even the most demanding market such as United States, with high quality and affordable car lines and very professional customer service system.

Bargain strategy-provide customers with cheap and low quality products. This leads to large volume sales, low profit margins and low market image. This strategy can only be implemented in short term. Developing countries like Thailand, China, Vietnam, India and Taiwan used this strategy in the textile and footwear industries for export and consumption in the world in the 1990s.

Luxury strategy-this strategy attracts customers with good quality products but high prices. This strategy ensures high profitability, while enhancing the prestige of the business to the customer, but it will limit market share to the target audience of the upper class or better off. Rolle-Royce is an example of this strategy with car prestige, image and luxury, unrivaled to competitors for decades.

Hit and run-this low-cost, high-volume strategy requires businesses to move continually from one market segment to another to continually find new customers. This unethical strategy can succeed in the short term with just one customer group and they will never return to buy the company's products anymore. In the context of today's business environment, few enterprises adopt this strategy.

Table 43: Price and quality strategic move

		PRICE	
		Low	**High**
Quality	**High**	Market penetration	Luxury goods, high value
	Low	Market opportunities	Attack and withdraw immediately

Source: (Obloj 1999)

Strategic move-attack and dodge strategy

Based on the two criteria of competition or avoidance of competition and the current or future (new) product/market, we have four strategic options:

Strategy for building functional differentiation-this strategy focuses on the determinants of success or failure in the current market. In other words, this strategy requires focusing on key success factors (KSFs), using key resources to perform an important function to gain competitive advantage, then improve the efficiency of overall operations of the business. For industries such as aircraft manufacturing (Boeing) or construction machinery (Caterpillar), core success factors are not the low cost, supply of materials or location but technology and the quality of works. Therefore, industry leaders are usually from the United States, not the developing world. For elevator businesses such as Otis or Schindler, rapid service is key element of success, as elevators are required to operate continuously, technical problems must be resolved immediately.

Strategic relative dvantage-this strategy is based on constantly comparing with competitors and taking advantage of their weaknesses in marketplace to strengthen own competitive advantage. McDonald's and Burger King in the world, Lotteria and Jollibee in Asia have succeeded in fast food business offering fast services but affordable service.

The strategy of bold initiatives-the goal of this strategy is to create innovative ideas and innovations that bring new vitality to the business and to the market when competitors show no weaknesses to be exploited. For example, white chocolate (very popular) or blue Coca-Cola (product line once with limited edition).

Strategy to maximize customer satisfaction-this is the most subtle strategy. First of all, it is necessary to analyze carefully what customers expect from the product to discover and satisfy the mysterious needs of customers. For example, before, the camera was not easy to use, so customers needed photographer services. Japanese companies such as Nikon and Canon have met the delicate needs of customers, which is the desire to shoot themselves, their families and friends, because the presence of the photographers will make the customer feel little confused.

Table 44: Attack and dodge strategic move

		Product/Market	
		Current	**Potential**
Competition	Confrontation	Strategy for building functional differences	The strategy of bold innovations
	Avoid competition	Strategic relative advantage	Strategy to maximize customer satisfaction

Source: Own development

Strategic move-affiliate and non-affiliate strategy

According to Miles and Snow, who have worked hard researching the electronics, publishing, and health sectors, businesses in the process of developing strategy often have to address three issues: Implementation of innovations (companies invest heavily in research & development and launch new product lines or focus on protecting their position in the market); flexible level of production technology; corporate governance, structure and procedures. The way companies solve these three issues will determine which of the four strategic strategies (strategic behaviors) it follows:

Innovation Strategy-company will seek market opportunities by providing a full range of products, always offering new products to meet the diverse needs of its customers. The effectiveness of new product lines is measured based on market and consumer acceptance rather than economic considerations. The characteristics of company with this type of strategy are: flat structure, flexible procedures, creative staff, production process and application technology always meeting the needs of customers. Intel in 90s, for example, showcased microprocessors at breakneck speed, causing the old version unmarketed for a long time and replaced by newer versions and left all competitors far behind.

Defense strategy-this strategy limits the range of key commodities and focuses on certain markets to maximize efficiency and capacity. Rather than focusing on innovation, the company aims to set barriers to market entry, such as through capacity enhancement, reorganization of operations, control of consumption networks, and improvement of technology in gradual manner. With a neat, compact architecture, with standardized business processes, these companies deserve to be called an "effective bureaucracy." Factories producing and processing commodities are the typical examples of this kind of strategy.

Mixed strategy-this is a combination of strategic innovation and defensive strategy. This strategy is suitable for medium-sized enterprises to conduct business in stable markets and to be present in dynamic markets. Defensive strategy allows enterprises to gain advantages in stable markets, while innovative strategies allow enterprises to have more advantages in dynamic markets. The main problem of mixed strategy is how to coordinate activities and allocate resources between these very different types of structures (serving very conflicting strategies). IBM is an example of this mixed strategy. IBM must always balance the essentials of organizational structure that focuses on the production of CPUs (central processing units) and dynamic business units that provide IT services and distribute PCs (personal computers) on the global market.

Passive & non-affiliated strategy-this strategy is often a result of uncoordinated solutions within the strategic, organizational and cultural scope. For example, innovation-driven enterprise having bureaucratic structure does not afford rapid decision-making. As another example, the business is defensive, but the process of controlling and cutting costs is not strict and rigorous.

Strategic move-market leader strategy

M. Treacy and F. Wiersema in their book “the discipline of market leaders” give some insights that competition today has changed the way of thinking about strategy. Cost and quality moves have not been as effective as before, because:

- Businesses can not raise prices even when costs increase; otherwise, they have to meet consumers’ needs in relation to product price lowering trends.

- Perfect service is not something exceptional, and customers are always expecting this in all markets when they have access to a certain market that provides perfect service.
- Luxury products of yesterday will become very ordinary ones today.
- There is no compromise between quality and price, as the market expects cheap, quality and innovative products.

After researching 80 enterprises as market leaders within their field, Treacy and Wiersema proposed three successful strategies:

Perfect operating strategy-this is a strategy that minimizes costs and assures low price. Perfectly operating enterprises are those with low total cost and the products are durable and fault-free. The cost of these products is decreasing over time as well as their sustainability and reliability. The guiding principle of this strategy is: to avoid differentiation and diversification, to focus on one operational model, one product line, one related core service, and to continually improve them. The next principle is the ability to analyze and optimize organizational processes, that is to shorten, to save and to minimize as much as possible. This strategy is based on standard operating procedures and strict control systems to ensure rapid and sustainable growth. IKEA and McDonald's are examples of excellent operational strategies when not only partners such as suppliers but also customers are drawn to this perfect chain of operations.

Product leadership strategy-this strategy is based on the rapid market launch of truly innovative product or service lines that excite customers. Nike is launching new sports shoes with "air technology" every year, attracting millions of fans all over the world. The basic principle of this strategy is to focus on creating products and commercializing them quickly. Just like the perfect operating strategy, product leaders understand that they can not do everything well, so they focus only on mainstream activities. The operating principle of the product leadership strategy is different but simple as the perfect operational strategy. The basic resource of this strategy are the people, the creators who are not afraid to challenge, dare to think, dare to do with the phrase "failure is not an option" as a motto, always direct towards new products, new markets and new challenges. Therefore, structures and processes have to be flexible to the pursuit of challenges and fulfillment of dreams. The last principle, equally important, is product branding and prestige for the company in a clever and smart way, launching product in the market in majestic, impressive and pay strong attention to the mass and the whole of society.

Strategic engagement with customers-this strategy involves customers service and after sales services, building and managing long-term relationships with them (through customer relationship management), learning from them, sharing with them the insights and risks, adapting products and services to their unique and temporary needs. The motto of this strategy is “customer loyalty is the property, one time customer is just a misunderstanding”. Companies in the high-tech sector, such as smartphones, laptops, and tablets, are those who are doing this. The “Mobile World” (the most famous Vietnamese brand for smartphone and related products or other retail service businesses are also interested in customer service, as these high-tech products are often expensive (the price of an average smartphone is comparable to that of a washing machine, TV or fridge, but the cost of production and cost of input materials are negligible), of high level of sophistication in technology as the occurrences of technical error, malfunction software are quite often.

Strategic move-confrontation and market search strategy

Based on two criteria: competitive advantage (focus or diversification) and strategic action (attacking competitors or satisfying customers’ demand), we have four strategic choices:

Frontal attack-this strategy concentrates forces (resources) to strike on competitors' weaknesses. In 1989 Japanese Toyota and Nissan launched the market with luxury cars such as Lexus and Infinity to attack rivals such as Mercedes and BMW in the US and Western Europe. At that time, Japanese car, as considered by customers, were cheaper and more durable than the American and German models. In 1992, Toyota sold 80,000 Lexus cars in the United States, and Nissan sold 35,000 vehicles. Meanwhile, the sales of Mercedes and BMW are far behind. Mercedes and BMW took three years to adjust their business strategy, involving the creation of new car models, lowering costs and improving quality in order to restore the lost market shares that falled into the hands of Japanese car manufacturers.

Market conquering strategy-this strategy focuses on using strengths of the company to serve specific customer needs. Gillete created the Sensor Light razor for women as a concrete example. Federal Express and DHL provide courier services to the recipient within 24 hours as next example. This strategy has the disadvantage that it is very easy to copy as both customers and competitors know very well how to operate to provide such a service or product to the market.

Strategy to avoid competition-this is a strategy to attack competitors but from different directions in a subtle way that they hardly to recognize.

Canon, for example, stepped into copier market in a less noticeable way through the distribution channels of office equipment.

Strategy to create new markets-this strategy is to meet the needs of customers. Businesses can gain strategic advantage in the marketplace through creatively linking different resources and skills. This is almost creating a new market or building new relationships, specific to customers. Body Shop, a British cosmetics, shampoo and shower gel company, has built its strategic advantage not on the means of marketing or communication, but by connecting production and business activities with idea of Corporate Social Responsibility (CSR), such as wildlife protection and ecological environment, using ingredients from nature, educate employees and customers about the needs and the ways of health care. In sum, the new market-building strategy succeeds by redefining the market and implementing multi-dimensional advantages to build and deliver unique value propositions to customers.

Table 45: Confrontation and market search strategic move

		Strategic Advantage	
		Focus	**Diversify**
Strategy	Attack competitor	Attack first	Avoid competition
	Satisfying the need	Conquer the market	Create new market

Source: (Obloj 1999)

The strategic approaches introduced above characterize the business model of the United States and Japan. Japanese companies often build on vast strategic advantages, beginning with satisfying consumers' demands, and then attacking frontally traditional leaders in the market. American companies are moving from the simplest strategic model based on advantages of focus strategy and pre-emptive strike to satisfy consumer demand once the market becomes more sophisticated and highly competitive.

Strategic move-rapid response strategy

Rapid response strategy is essential in a dynamic business environment that is to focus on meeting the rigorous demands of customers. This involves all tasks such as product/service deployment and distribution to the market, customer feedback registration and product refinement. They need to be implemented faster than competitors do. In a volatile business environment, only companies with high dynamics can respond faster to keep up and overtake the market. Rapid response strategies must meet time requirements related to:

New product development-the pace of product development is accelerating, especially in areas such as high technology with shortened life cycle of technology, products and markets.

- Personalized products-be dynamic and flexible to create products that meet the unique individual needs of consumers. As living standards are higher, this factor tends to increase.
- Product perfection-the speed of product improvement, especially continuous improvement, is extremely important to be able to successfully compete.
- Product delivery-shorten maximally the amount of time between the receipt of the order and the receipt of the product, thus contributing to added values of the product.
- Adjust marketing activities-to quickly adjust these activities to adapt to the business environment to optimize the business performance.
- Pay attention to customer requirements-respond quickly to customer feedback on quality and price issues, features of the product to make the appropriate action to further customer satisfaction.

Here are some of the advantages and disadvantages of doing this quick response strategy:

Advantage:

- Avoid confrontational competition using so called “blue ocean strategy”, go ahead with alternative products and with new entrants to the industry.
- The company may impose higher prices due to creating value for customers through quickly responding to their needs with the motto "time is money".
- Shortening the time of the design, fabrication and distribution stages will lead to a reduction in the overall production cost of the product.
- Pulling partners into a dynamic production engine, encouraging them to shorten time and create value for one another.

Disadvantage:

- Sometimes rapid response strategies are unnecessary (in the context of stable market conditions, such as traditional industry of agro-forestry), and are not always valued by customers.

- It is not always possible to achieve rapid response strategy due to limited capacity and resources of the company.
- Rapid response strategies put pressure and stress on the parties involved in the production process and not all partners can participate.

Strategic move-strategic impasse

Strategic impasse is also known as deadlock in strategy. The stalemate in strategy occurs when the company does not have a certain degree of compatibility between the underlying factors such as product, market and distinctive competencies; when company pursues strategies that do not fit these underlying factors. More specifically, this happens once:

- The company can not carry out any strategy with/without any relative competitive advantage compared to the rest of competitors, especially as the competition environment becomes more severe.
- The company can not pursue a chosen strategy because its relative competitive position is diminished and its competitive advantages (in terms of distinctive capabilities) are lost due to its changed structure and competitive environment.
- The company, in order to preserve resources, does not pursue the chosen strategy and stationed in a leeway waiting for coming opportunities.

Strategies for stages of branch development

Competitive strategy-in industry with many small SMEs

This is a perfect competitive environment as there are too many businesses of equal caliber to do business and grow. Retail businesses of consumer goods or food and beverage (F&B) service are good examples. The following are some industry characteristics and proposed competitive strategies.

Industry profile:

- Low entry barriers-any other enterprise can move in, any individual can start a business and join the industry with little or no initial capital, specific skills and competencies (distinctive capabilites).
- The needs of customers are very different and diversified-the large market has many small segments, providing opportunities for parties with different distinctive capabilities to join.

Competitive strategy:

- Weak position in relationships with suppliers and customers, due to characteristics of the industry, these enterprises need to specialize according to the needs of customers. Companies in this industry can not order large amounts of supplies and can not supply in large quantities.
- Small companies can be linked to each other (establishing a business or franchise agreement), consolidating small markets, and improving relationships with partners to reduce costs and achieve the effect of scale.

Competitive strategy-in the industry with a few big companies

This is monopolistic competitions, (oligopoly or monopoly) available for a few large companies, usually state ones, with high potential and competencies. The following are some industry characteristics and proposed competitive strategies.

Industry profile:

- Large companies dominate the competition and determine the structure of the industry.
- Because few businesses are actively involved, they are more likely to react to the competition of their competitors.

Competitive strategy:

- It is necessary to develop business rules and agreement on price, when suppliers and even customers will not have their voice.
- Market share determined between large companies to avoid confrontational price competition to keep the industry's profit at a stable level.
- To prevent the intrusion of external competitors, large enterprises divide amongst themselves of all possible customer segments in advance.

Competitive strategy-for market leaders

Market leaders often have a large market share, leading competitors over the launch of new products, pricing policies, promotion and sales network development. The global market leaders worth mentioning are: Microsoft (information technology), Wal-Mart (retail), General Motors (cars), Coca-Cola (soft drinks), and McDonald's (fast food). Market leaders are always attacked and followed by closest opponents and are always at risk of being ruled by them. Nokia is a typical example of failure in the mobile industry, a very young but dynamic sector. Because of the dynamic nature of the industry with so many complexities happening, Nokia, with its leading position, has neglected to drop its market share and position to other competitors such as Samsung, Apple and several emerging Chinese rivals. In order to maintain the number one position in the market, these leaders need to implement the following strategies:

Expand the total market demand-focus on exploiting thoroughly the ability to market products to all customer segments of target markets. This strategy can be implemented through:

- Search for new geographic markets-other countries and territories where company products are not available.
- Look for new customers-those who are outside the target market, who are new, unknown, or not yet able to purchase the product because of high prices or its unsuitability.
- Developing new product uses-businesses can find out more and propose some new uses of products to stimulate consumer demand and expand the market and target groups.
- Encourage more product use-depending on product types, this strategy can be implemented in a variety of ways.

Defend market share-leading business units must always protect themselves against the attacks of other competitors, especially before the attack of the units that challenge the market. The following are the defensive measures that business units can use to maintain leading position for a long time:

- Position defense-businesses must manage costs to maintain low product prices, product diversification, branding, continual product and non-product innovation, replenishment of services to create value for customers.
- Flank defense-businesses must carefully analyze the evolution of the business environment, detecting, correcting their weaknesses and protecting their strengths so as not to be attacked by competitors.
- Frontal defense-attack competitors, especially the market challengers before being attacked, with motto “prevention rather than cure”.

- Counterattack defense-when attacked by an opponent, the business must counterattack by attacking the opponent on another side.
- Mobile defense-through new product and market development, product and market diversification, company may prevent risks related to current product lines and markets. In short, this is a measure of the need to expand business to other products/services to spread and prevent risk.
- Clustered defense-withdraw from less efficient business units to focus all resources on well-positioned business units. This strategy goes against the mobile defense strategy.

Competitive strategy-for market challengers

First of all, business needs to identify the competitors that are subjects to attack. These rivals may be market leaders with the goal of winning back or gaining some market share. The goal may also be to dethrone them and become new market leader. In Poland, for example, the medium scale supermarket chain Biedronka has gradually dominated the market and became the largest retailer through rapid development into high-rise residential areas, surpassing British Tesco, French Carefour and Germany HIT-larger supermarkets in terms of floor space, variety of types of items. If they are not capable of attacking market leaders, the market challengers may attack similar size retail chains to capture and remove them from the market. The following are the strategies that market challenger use to attack competitors:

Frontal attack: Attacking the strengths of competitors. In this way, market challenger businesses must possess certain strengths in key areas such as research and development, marketing campaigns, product development, and adequate resources to withstand counterattacks from the opponents, market leaders. In Vietnam, Unilever's Omo and Tide of P&G (Procter & Gamble) have repeatedly attacked and countered each other to compete for a leading position in the field of detergent (washing powder and liquid).

Flank attack: This is a strategy using strengths to attack competitors' weaknesses. This strategy is applied when the attacker, challenger does not have overall and comprehensive strength. This strategy can be achieved through the development of products with special characteristics to be more suitable to the needs and expectations of customers that competitors, market leaders have not meet; development of similar products to compete with original products at lower prices.

Sieging attack: This strategy is based on attacking competitors, market leaders in all directions. This strategy should only be applied when market challengers have sufficient resources to simultaneously attack on various levels and prevent counterattacks from competitors.

Bypass attack: This strategy is used by the attackers, market challengers who developing new markets, new technologies to produce new product lines with new customer service that quickly overwhelm the competitors.

Guerrilla attack: This strategy is characterized by: selective discounts, aggressive advertising and promotion campaign to attract target customers from competitors, market leaders. This strategy can only ensure short-term success, which is difficult to achieve in the long run.

Competitive strategy-for market followers

Market followers often do not have enough resources to confront the market challengers and market leaders. In many cases, market challengers do not want to confront market leaders, so market followers choose this strategy, too. The market followers can learn from experiences, improve current products on the market, save money by not investing in research and development to market new technologies and products. Japanese firms are one example of followers of Western -owned enterprises in terms of product and market development, but later some of them have overtaken Western rivals to become world market leaders, so do Chinese businesses today. The following are some of the competitive strategies for market followers.

- Complete copy-this strategy involves copying all business operations such as production, distribution and advertising of leading competitors to imitate and deliver on target markets that are price sensitive.
- Copy some of the core points-market followers copy only some essential points of the market leader while retaining some of their own characteristics.
- Copy to imrove and adapt-market followers follow only a few necessary points or all points of the market leaders to self improve to better fit the situation, with purpose to develop market share to become the next challenging unit (challenger).

Competitive strategy-for market niche finder

The market is very large so there are many rooms for small and medium size enterprises. Being market niche finders, enterprises can achieve high profits because the niche is of little interest by other competitors. Small and medium size enterprises can also create barriers to entry into this niche to prevent attacks by competitors. To succeed in these niches (narrow business areas), enterprises often have to specialize in the following ways:

- End-user specialization-select a number of groups of customers who have demand for products and services to serve them best.
- Specialization in the specific stage-choosing and focusing on a particular stage of production or business, a detail of machinery, a certain type of input material and diversify within the framework of the department or related details.

Specialization by customer-serving certain segment of customers as classified by age (elderly, middle aged, young, children, newborn), income (high, medium, low) geographic areas (rural, urban, Vietnamese overseas, foreign visitors).

- Specialize by sales area-select a segment of geographic market to serve such as the midland, mountainous, delta area.
- Specialized by product characteristics-such as high quality products, luxury products, ordinary and cheap goods.
- Specialization by items-such as laptops, tablets, smart phones in line of high-tech products.
- Specialization in support services-such as e-banking, direct and home banking, bancassurance, securities and VIP services.

Competitive strategy-at development stages of industry

Businesses that choose competitive strategies often have to analyze their strengths (core strengths, core competencies, distinctive capabilities, unique competitive position and sustainable competitive advantage); the needs of customers in the target markets. But an equally important factor that needs to be thoroughly analyzed, especially for the environment and industry competitive strategies, that is the stage of development of the industry. Depending on the stage of development of the industry, enterprises may have different competitive strategies.

- Early stages of development-companies must differentiate to a certain extent to create credibility, branding and strong standing to prepare for the coming period.
- Growth phase of the industry-companies should be prepared to pursue one of the specific strategies (low cost, differentiation, or concentration), otherwise they will fall into strategic impasse. This

is the preparation stage for the next phase as the level of competition intensifies.

- The maturity of the industry-at this stage of the industry and its market certain strategic groups have been formed and the transition between strategic groups is increasingly difficult. Companies are only competing with each other within their strategic group as the competitive environment has gradually become stable. This also protects the industry from the penetration of the new competitors and restricts competition in the industry. In order to maintain the competitive position that has been created in the industry, companies must continue to invest resources to build and develop the distinctive capabilities they currently possess.

Investment strategy-in development stages of industry

Businesses need to invest in the resources they need to strengthen their distinctive capabilities in order to maintain and develop their competitive advantage in line with the chosen business strategy (low cost, differentiated and concentrate). Here are two factors to consider when choosing an investment strategy:

- Competitive position (as compared to other competitors in the industry)-represented by two complementary internal factors of the business: owned market share and distinctive capabilities that create competitive advantage.
- Industry development-opportunities, threats and competition levels will vary at different stages of industry development, so they will have different impact on business and its investment strategy at each of these stages will be different (see table below).

Table 46: Investment strategies at development stages of industry

		High competitive position	**Low competitive position**
Stages of industry's development	Embryon	Market share	Market share
	Growth	Growth	Concentrate
	Fierce competition	Expand market share	Focus/harvest
	Mature	Maintain profitability	Harvesting/abandonment
	Depression	Minimize investment	Give up/change

Source: Own development

- Embryonic stage-the market is less competitive. Businesses, regardless of their current competitive position, must invest in research and development, define product policies, build market share, and brand reputation to create competitive advantages for the later stages.

- Growth stage-the level of competition is gradually rising. Enterprises need to invest large amount of capital to build their distinctive capacities and maintain their competitive position in the rapidly growing market. Particularly for enterprises with relatively low competitive position, this investment must be focused to avoid spreading, on the one hand because of weak resources, on the other hand due to limited market share.
- Competitive stage-at this stage, company with high competitive position should focus on maintaining and growing its market share; company with low competitive position should focus on existing market share, harvest or withdraw from market before it shows signs of going down.
- Maturity stage-when the market is saturated, businesses with a high competitive position should focus on maintaining their current profitability. At the same time, businesses with low competitive position, if the ability to harvest is on the decline, should withdraw capital, abandon the market.
- Recession stage-when the market is showing signs of decline, the ability to maintain the same profit is difficult even for companies with high competitive position. Enterprises should minimize their investment because of poor prospects. Enterprises with low competitive position should give up (liquidate, dissolve) and withdraw from the market, switch to other investment.

4.2.4 Functional strategy

Typical functions, such as human resources, marketing, finance, accounting, operation (production), distribution, customer care, help company perform its professional operations to provide the market with their products and services viewed in terms of value to customers. Depending on the characteristics of each industry and the characteristics of each enterprise, some of these functions contribute to the ability to distinguish the company to achieve desired competitive advantage. Managers need to better understand how these functional activities contribute to creating value for the business and for the customer; how they are coordinated to achieve the goals and successfully implement the strategies outlined at the business unit and company level?

Production and operation strategy

For production enterprises this is called production management strategy, and for service enterprises this is called operational management strategy. Depending on the chosen business strategy, we can have the following operational strategies as appropriate to achieve the goals that the business expects.

Table 47: Operation strategy

Competitive Strategy	Operation strategy
Low cost	Cutting production costs and operating costs Optimal inventory minimization Product standardization at a high level
Differentiation	Focus on the products and services that come with it: unique points, outstanding value, type, style

Source: Own development

The tasks of the production/operation division include a number of specific tasks:

- Analyzing the impact of environment on each production activity of each product line.
- Evaluate and locate facilities for the establishment of factories/offices.
- Determining quality standards for products, input materials, maintenance and maintenance of means, equipment and machinery.
- Set up production schedules, conduct and control production activities, control the quality of products right from the first stage of the production process.

The following are some of the production/operational management strategies for small business units:

- Low cost strategy-low initial investment (minimizing fixed costs by choosing factory location in the outskirts of major city centers, purchasing raw materials at the origins) in one mainstream product lines, keeping the cost of regular operations low (saving raw materials, electricity).
- Focus strategy for differentiation-offer a few lines of product with exquisite features and exceptional quality.
- Mixed strategy-low cost along with continuous improvement of the quality of several product lines.

- The following are some of the production/business management strategies for large scale businesses:
- Low cost strategy-lower production costs (such as placing factories in locations far from the city center in countries with labor cost advantages, maximizing material savings, restructuring the production process to be appropriate to current situation) on each unit of product to gain the advantage of scale;
- Diferentiation strategy-provide superior quality outputs based on uniqueness and unique inputs;
- Mixed strategy-lower production costs per unit of product and provide superior quality outputs.

Marketing strategy

Marketing strategies include product development strategy, market development strategy (distribution), PR strategy, communication, advertising and promotion (promotion mix) strategy, price strategy. The basis for the development of marketing strategy is the views and philosophy in business and in marketing activities considered by management board to accept. The tasks of marketing department in the enterprise include: building the personnel structure of department, market research, sales management, customer care. Marketing management includes planning, organizing, coordinating and controling marketing activities with 04 marketing mix tools: product, place, price and promotion (4P). Depending on the business strategy approved by the management, the company can implement some marketing strategies as follows:

- Position the market so that customers clearly distinguish the company's goods from the competitors
  - For low-cost businesses-prices are lower than other brands in the target market.
  - For focus differentiation businesses-the product has distinctive character compared to its competitors.
  - For focus mix (low cost and differentiation) businesses-the product has outstanding features and reasonable prices compared to competitors.
- Develop market share in new markets-the period when businesses start bringing their products to the market for the purpose of commercialization:

- For low-cost businesses-development of short-term distribution channels and self-service sales networks, promotion activities on low-cost instruments.
- For focus differentiation businesses-develop distribution channels and sales networks that meet the expectations of target customers.
- For focus and mix (low cost and differentiation) businesses-develop distribution channels and sales networks that meet the expectations of target customers in conjunction with promotion activities on low cost instruments.
- Consolidate and increase market share in the current market – this is the stage of development in the product life cycle. Enterprises must adjust marketing strategies (4Ps) in line with business strategies such as: product innovation and service innovation, adjustment of pricing policy accordingly, strategy of PR, advertising and promotion, expansion and diversification of distribution channels, further promote communication activities.
- Protection of market share-when market share is not increased and starts to decrease (certain threshold reached). Businesses must improve quality and design, start brand renewal and develop new uses of the product as customer demand decreases and competition intensifies.
- Narrowing market share-as the market is in recession, sales are down, profits are reduced, businesses must implement harvesting and give up strategies (to get return on investment), reduce, or if possible, prolong the product life cycle in other less fastidious market.

Purchasing strategy

All organizations and businesses must have purchasing function. Manufacturers need raw materials, spare parts, equipment, semi -finished products and other support services. Commercial enterprises need to source the business with products to sell to the customer output. Service companies need office equipment, room decoration, and headquarters to carry out the services required by customers. The duties of purchasing managers include the following:

- Identify and evaluate potential suppliers to select the most suitable partner for long-term cooperation.
- Invite qualified suppliers to offer the most suitable items in all aspects (price, design, packaging, style, form of payment...).

- Negotiate price and procurement conditions best for the current situation of the business.
- Decide on the size of order which depends on a variety of factors, including those mentioned.
- Supervise the delivery of goods to ensure delivery in the right place, at the right time, with the right quality as stipulated and agreed.
- Pay for goods in accordance with the agreement to ensure the credibility of long-term business.
- Summarize the purchase process to learn from experience for subsequent orders.

The following are typical purchasing strategies that procurement managers can apply:

- Buy the lowest price possible-to create the cost advantage for businesses to pursue the low price strategy.
- Buy high quality products with striking differences-to look for superior quality inputs from reputable, well known suppliers to ensure distinct competitive advantage for output products.
- Buy Just-in-Time-businesses that pursue this strategy will buy where they go, do not hoard, conserve and store to dramatically reduce operational costs to compete on price such as the standard purchase strategy at the lowest possible price.

Research and development strategy

Improving the product (enhancing the value of the outputs) and improving the operational processes (saving and improving efficiency), in addition to the implementation of technological innovation, are the main tasks of research and development (R & D) department in enterprise, especially facing turbulent business environment of high-tech industries that create great added value for customers and businesses and for the whole economy. The following are the advantages and disadvantages of the proposed research and development strategies for low-cost business and differentiation based business.

Table 48: Advantages and disadvantages of R&D strategy

Competitive strategy		Technology leader strategy	Technology follower strategy
Low cost	Advantage	Product design at low cost Create a low-cost	Low production costs through the experience of the go-ahead Avoid large investments in

		mode of operation	research and development
	Disadvantage	Easy to copy	If you do not increase the level of investment, it is very difficult to develop and forever follow the technology
Differentiation	Advantage	Create unique, unique products Creativity in price action increases product value	Improve the product to be close and satisfy customer needs
	Disadvantage	Investments in research and development are subject to high risks	It is difficult to implement this strategy if it is always followed by technology in the field

Source: Own development

The following are a number of R & D strategies proposed to fit each specific business strategy in order to achieve its goals:

- For focused low-cost businesses-reduce the cost of operational processes through continual restructuring organization and its decision-making processes, fundamentally innovating by improving efficiency and cost reduction of production processes thanks to cutting-edge technologies.
- For focused differentiation businesses-improve output products and services (quality, design, color, style) for customers by current best technology.
- For focused mix (low cost and differentiation) businesses-improve products and services, while reducing the cost of operating processes.

Although research and development helps businesses achieve some competitive advantages by leveraging their specialized distinctive capabilities, it is directly related to certain risks:

- The innovation process can be very complex, and implementation is less effective due to weak technological capabilities and the inability to use advanced technology needed.
- Lack of market research to have sufficient information on output requirements of products and services, so it is not possible to use technology effectively and in the right direction.
- For high-tech specific industries where the costs of research and development are so high, the risks are also high accordingly.

Enterprises often do their research works through partnerships with other parties or outsource some of the research works they have no strength.

Financial strategy

This strategy involves making effective financial decisions, both in the short and long term. In addition, businesses need to build a sound financial structure such as the structure between debt and capital, capital mobilization policy, investment, reinvestment and dividend. The following are the appropriate financial strategies for each specific business strategy:

- For low-cost, cost-competitive businesses-strategy to reduce the cost of using capital resources, such as leveraging available funds, preferential loans, issuing bonds, invest in saving technologies, purchase raw materials and equipment at cheap prices.
- For focused differentiated businesses-investment is needed to improve the quality, innovation and innovation of products, increase the value of the output to customers by borrowing, issuance of shares, bonds.
- For focused mix (low cost and differentiation) businesses-combine low cost of capital investment and increase the efficiency of using them to make the difference to the output.

Human resource strategy

Human resource management plays an important role in enterprises, enabling them to effectively leverage existing capabilities as human resources are the active component among all the resources. Human resource management activities include: analyzing the immediate and long-term human resources needs of the organization, recruiting, training, arranging work, evaluating, treating and promoting potential employees. The following are human resource management strategies for different business strategies aimed at expected goals:

- Attracting good workers-excellent labor force is the source of labor suitable to the needs of enterprises in both short and long term. Businesses can use professional services such as headhunters in this field.
- Arranging work in accordance with professional ability and personal characteristics-good human resource manager know how to use people effectively, know how to arrange their work so that to exploit their potential and experience at maximum.

- Create favorable conditions for employees to work most e-ffectively-good human resource managers must be aware of the employees at all levels, support them in terms of material and spiritual at the right time, motivate and coordinate the work of each individual, build the working groups creatively and effectively.
- Attaching a good long-term workforce to the organization-through both material and non-material remuneration, rewarding and promoting the right person, timely and worthily, training and coaching, love and stick with the company and work longer. Good human resource manager must always consider employees as valuable assets, integral part of the business they are operating.

Infrastructure development strategy

Information systems are a basic and essential infrastructure for business operations. Information is considered one of the key resources behind human resources. Information helps businesses make the right decisions, contributing to building competitive advantage and improving the competitive position. Therefore, it is necessary to promote effective information management system. In order to do this, there are a number of strategies for managing information and information systems:

- For low-cost, cost-competitive businesses-synchronous imp-lementation of standard IT solutions. These solutions are very simple to install and use, while helping to save costs during maintenance and upgrades, especially for specialized software.
- For focused differentiated businesses-deploy dedicated, customized IT solutions. This will be more complicated and involve higher costs, but will create differences felt by customers; especially the unique IT solutions for direct servicing customers' needs will significantly increase the value they can receive.

For focused mix businesses-the two mentioned strategies need to be harmoniously combined.

4.3 Corporate strategy implementation and control

4.3.1 Strategy implementation

Context of implementation

The strategy, in order not only to be on paper, it must prove its great feasibility to convince business leaders of the choice and implementation. In order to demonstrate the practicality and value that can be given to a company, it is necessary to ensure consistency between the strategy in relation to the various key elements in the organization.

McKinsey's 7S framework context for strategy implementation allows for strategic assessments in this respect. The 7S context is in fact an extension of the business's 4S perspective and can not be restricted to further expanding the "S" in subsequent studies on the context of strategy execution. In view of the 4S, in order to operate and perform its basic functions, an enterprise must:

a) S-trategy

have certain target orientation, i.e. know where to go and how to get there. In other words, businesses must have certain goals and strategies to achieve them while maintaining and promoting their competitiveness.

b) S-tructure

an enterprise must be structured into different departments (functional, non-functional, inter-functional) and build relationships between them in terms of orders, reports, committees to provide information, to share resources, to allocate responsibilities, tasks and resources appropriately to implement above-mentioned strategy.

c) S-taff

During and after the organizational structure has been established, it is necessary to develop (attract, recruit, train) personnel within the framework of the established organization. This internal staff is closely coordinated with each other to carry out assigned tasks to contribute value to the organization and to realize the strategic objectives set.

d) S-ystem

The 70s and 80s of the last century having just 3S above, the business was able to operate relatively stable. But with the increasing complexity and unpredictability of the business environment in the last decade of the twentieth century, revolutionary changes have taken place within the enterprise. Firstly, with the advancement of information technology, especially with the increasingly indispensable role of management information systems, enterprises require faster processing of economic information over time to cope and adapt to the lightning pace of the business environment. Secondly, it also involves unpredictable changes in the business environment, which now have to shift from function based operations to process-based operations. /procedure. These processes, depending on needs, can be automated in part or in whole through the implementation and installation of management information systems. Applying information technology and information systems will help businesses restructure, reduce bureaucracy and management layers, towards a flexible, organic, lightweight structure responding to the rapid development in the business environment.

McKinsey's 7S context is essentially the 4S perspective presented above expanded with three further elements:

- S-uper goal (fit to core values and basic philosophy that are commonly accepted ans shared) is the expression of vision and mission of the business.

Super goal, in difference to strategy, is directed to classification of proposed strategies into highly feasible strategies (to achieve determined objectives within budget, time and other resources) and infeasible strategies (the rest of strategies).

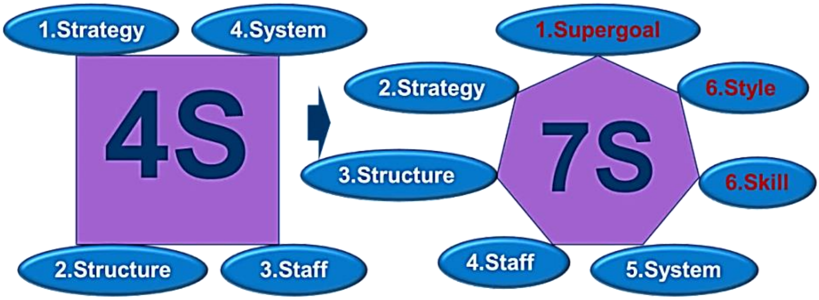
- S-tyle (style of leadership, management, manner and behavior in cooperation and performance of assigned tasks) show the specific culture of the organization.

Style is essential in business operations, customer service and corporate governance today as the size of the business is expanding. It demonstrates the professionalism of the business in all areas of operation such as leadership, management and behavior in collaboration, teamwork and the performance of individual assignments.

- S-kill (competencies and qualities needed for individual employees, regardless of whether they are in managerial or non-managerial positions) demonstrates the quality and professional level of human resources to meet the goals and execute strategies of the organization.

Style is the appearance, formal elements of business management in functional, non-functional and cross-functional activities. In contrast, skills in terms of capacities and qualities are intrinsic factors within individuals that enable them to perform well assigned tasks, effectively collaborating with others to perform larger tasks, beyond the ability of individual to adapt well to changes in all aspects of the individual, group, organization and business environment.

Illustration 71: McKinsey 4S and 7S context



The above analysis shows the role of fully identifying the nature of the seven S-factors, their importance (depending on the time and the organization). More deeply, we need to look at these factors from the perspective of a system of elements that are interconnected and interrelated and how they affect the capacity toward the goal of the organization.

The following is an example of changing the nature and content of the six remaining elements when one factor changes, that is a changing strategy from focusing on one market, one product, and one field of activity to multi-market, multi-product, and multi- field of activity. Any changes that occur within the scope of the remaining elements are analyzed in the following table.

Table 49: 7S for focus and diversification oriented business activities

	Strategy focusing on a market, a product, and field of activity	Strategies for diversifying in terms of markets, products, and field of activity
Structure	Simple, compact, centralized administration, rigid structure, centralized	Complex, distributed, decentralized
Style	Indignant, autocratic, closely monitored and controlled, responsibility belongs to the leader.	Democracy, empowerment, lower self-control and self-responsibility.
Skill	Specialized skills, high level of expertise	Simultaneous convergence of skills from market management to science and technology.
S-goal	There are certain specific goals, with little or no change.	Improve competitiveness through diversification and diversification of product lines.
Staff	Highly specialized in a specific field, training and long-term training	Diversify the training needed skills for employees.
System	Closely, unified.	Emphasize the use of effective information technology.

Source: Own development

Strategy's decomposition and strategic convergence

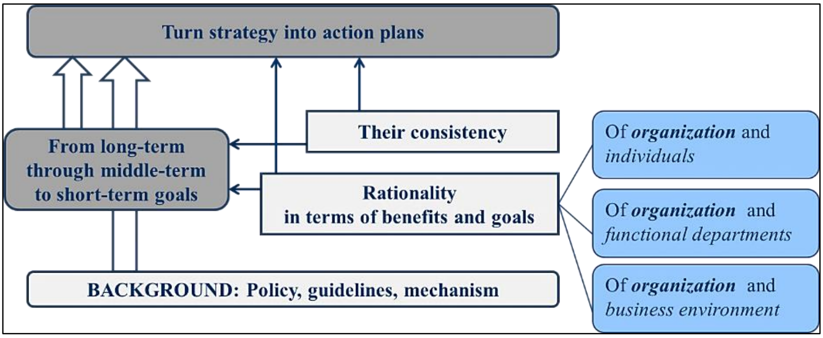
Decomposition of strategy

Strategy, in order to be convincing and highly feasible, requires concretization and operationalization to demonstrate to the stakeholders at management levels within the company and external parties the usefulness and value it brings to all. Strategy itself is a step in the hierarchy of business perception, from general to specific. In terms of the degree of generality (on the level of detail and timeframe, the size of the budget and other resources proposed, the magnitude and frequency of certain fluctuations), over the strategy we have vision, mission and mission statement. More specifically, below the strategy w have tactics and operational tasks accompanied by action programs and appropriate action plans.

Illustration 72: System of perception levels on enterprise

Source: Own development

Illustration 73: Model of concretization in strategy execution



Source: Own development

The above model helps us visualize the problems we face when concretizing strategy into action plans. Here we are interested in transforming strategy into tactics and decomposing strategic objectives into a system of goals from tactical to grassroots level. It means that we go from broad to concrete, the more specific the narrower the time frame, the smaller the budget and the more specific task. For goals closer to the grassroots level and measures to implement them, the complexity and detail are increasing. As a result, managers and executives will have to know better what they must do and allocate the resources needed to bring them into action. This is followed by a short-term change that is continuous and increasing. Therefore, operators must be both specific and flexible enough to work out how to respond to these short-term changes. Here are some issues related to concretizing strategy into action plans.

- Developing long-term goals into shorter-term goals – this is the basis for achieving long-term goals related to the integration of common strategies. Short-term goals, especially short-term grassroots goals:

- Must be very specific in terms of tasks, powers and responsibilities, time, budget and other necessary resources. Next, they must be measurable, committed, challenging, and feasible.
- Can be adjusted to adapt to the changes of the business environment outside and inside. They may even be discontinued or permanently removed, and make room for more appropriate targets at a specific time.

Integrate long-term and short-term goals

Consistency between short and long-term goals-short-term goals are formed from long-term goals and their implementation will contribute to the realization of long-term goals. In order to achieve consistency in converting long-term (development) targets into medium-term and short-term financial indicators, short-term indicators and targets must be the springboard for real longer term goals. Because the attitudes and aspirations of stakeholders for short, medium and long-term goals are completely different. Consistency among these target categories is confirmed when stakeholders to a certain degree are in favor of bringing the entire target system into reality.

Organizational and personal relevancy-we have mentioned above the consistency required in the relationship between short, medium and long term goals. Here, such a consistency also needs to be achieved:

Between the interests, objectives of the organization and of individuals-there is never a complete unity between interests of the whole corporation and of the individuals, especially when new individual joins the organization or when new organization is formed. The unification of rights and responsibilities between the two groups is necessary to link individuals with the collective, workers with business owners, so that enterprises can develop sustainably.

Between interests, objectives of company and other functional departments-in an organization each has its own mission and sometimes, due to resource constraints, the unequal division of power and responsibility takes place between departments, resulting in disruption and loss of business performance that goes against the goals of the organization. In this situation, senior executives must mediate and explain to departments the decisions to allocate tasks, resources and power for all parties to cooperate happily with each other, instead of creating unnecessary conflicts, creating momentum for the business to move forward reaching sustainable development.

Between the interests, the goals of the organization and the business environment-it is difficult to resolve disputes over power, rights and responsibilities between parties within the enterprise, the same issues happening between target groups inside and outside the enterprise are more difficult to handle, especially with a large number of diverse groups of stakeholders, which are difficult to identify and predict their impact coming from different directions in all segments of the business environment. To solve the problem of benefit in this case, senior business leaders need to have a longer, more responsive and flexible vision to identify and solve problems in coordination with each party to create solidarity, support and agreement in the long term.

Policies, guidelines, and mechanisms-these are recommendations, incentives and general guidance on how to implement the strategy and achieve its goals. The policies, guidelines, mechanisms and sanctions include and are expressed through procedures (sequence of steps), laws (legal documents), regulations (detailed documents, practices (unspecified) and requirements issued, publicized and publicly disclosed to the whole company. These policies and guidelines must be specific and stable, creating unity and rhythm in the operation of the whole company, departments and individuals. They may be necessary directions, indispensable indicators for building and maintaining consistency and rationality between components at all levels within and outside the organization.

Convergence in strategy execution

As organizations grow and become more complex, the independence between units (business units, functions, processes) is inevitable. Cooperation and integration between them is the key factor to achieve the effect of senergy and competitive advantage. An enterprise is structured by functional units (including functions necessary for the enterprise to operate effectively to perform its professional operations), business units directly generating profits for themselves and the parent company. Business units may have their own functional departments or use services provided by functional departments of parent company or both. Integration of such expertise and support is inevitable so that these units can work together to consolidate their strengths in order to implement strategies consistent with the policy of the business of parent company.

- Collaboration between functional departments-in coordinating functional units in the structure of the business units, leaders should note following issues:

Avoid overlapping, but also avoid shirking responsibility among functional divisions, which is particularly relevant to cross-functional tasks performed by multiple departments at the same time.

Avoid over-emphasizing the goals and tasks of own department without putting them in the overall context of the organization. There should be many meetings between the leadership and functional departments to clarify the contribution and role of each department in the context of the overall strategies and goals of the whole business and dynamic developments taking place in the business environment can complete change goals and tasks set for the entire business and related functions.

There is a need for integration and participation in joint projects of functional departments. Increasingly, functional departments collaborate and work together through projects, programs and grants, they will have more opportunities to learn more about each other, to build relationships and respect each other, thereby that easily leads to effective and mutual collaboration with each other in similar projects in the future.

Integration between business units-business units need to create synergies between them based on: shared use of the infrastructure and rersources of the parent company or their own, sharing the existing experience on the market, technology, customers and products, depending on the field of operation of each unit. In addition to achieving own goal in terms of sales, profit and market share, enthusiasm towards common goals will benefit all units in the organization.

In order to achieve these integration, co-operation, consistency and rationality, it is necessary to analyze the underlying factors facilitating or discouraging the effective implementation and execution of strategy towards organizational goals. These are soft factors such as organizational culture, leadership and the ability to manage change in the organization as identified in the figure below.

Illustration 74: Soft factors impacting strategy execution

Source: Own development

Organizational culture

Organizational culture is a field of research that has been studied for ages, even before the formation of the science of management. Culture is the foundation that helps us to distinguish one organization from another. Organizational culture is the common denominator for all business activities, from operational to strategic level, together with leadership and change management. Organizational culture can help us navigate strategy and organize it more effectively, integrating deeply and broadly with the rest of the organization.

Organizational culture includes the following elements:

- System-organizational culture is a collection of mainstream systemic ideals and philosophies that shape its critical business activities and impact its business decisions.
- Values-organizational culture is a set of core values that members must accept and adhere unconditionally. These values can control individual and collective behaviors, making the strategic choices and business decisions distinctive, more subtle, and differentiated in relation to competitors.

- History-organizational culture is a process of formation and development, spread over many ups and downs in the history of the economy and enterprise itself. It is an evolutionary process that selects, maintains, strengthens and honors the most valuable human and spiritual values typical for all business activities at the present and in the future.

Components of organizational culture are the following elements that are presented from the inside out, which is also the direction of the interaction of cultural components:

Core values-these values and their roles are outlined above. These values also address some of the issues in management: attitudes towards power (role of soft power in organization and the level of preference in the application and adherence to this type of power), attitudes to risk (acceptance or avoidance of business risks and of activities directly or indirectly related to business), how to handle relationships (how to solve problems and conflicts arising in relationships, based on rules, regulations, laws or based on emotion, the specific of each issue in order to lead to compromises so parties feel comfortable), decisiveness in decision-making.

Common norms of behavior-norms in behavior, and even in thinking, are determined by core values that business members voluntarily or compulsorily adhere to.

Beliefs-things that all members of the organization believe are right and are reasonable. Belief is very important, because it means everything, such as belief in victory, belief in the values and noble goals of the business. Trust in the correctness and usefulness of the proposed strategy and the path to its realization must be maintained, strengthened and promoted. Therefore, it is essential to build trust in order to reinforce the spirit of all members to be firm in the development and implementation of business strategies.

Rituals-rituals are formality of the enterprise. Like the styles presented above, rituals express, reveal the core human values, beliefs, iron wills, inner perseverance of each member in the organization towards success and a bright future.

Etiquettes-they are things that employees in the organization often do because of habit; they are accepted and followed in a conscious or unconscious way by current and new employees. Company leaders need to observe carefully to maintain positive and eliminate bad habits that cause disorder and ineffectiveness in the day-to-day business operations. Positive habits can be like: working on time, greetings when meeting, helping colleagues and new employees. Negative habits can be like: smoking during work hours, defaming each other, jealousy and disorganization within the organization.

Leadership

The art of leadership is one of the manifestations and an important part of organizational culture. The core values of organizational culture will also determine the style of leaders, the extent of their power and influence on the public within and outside the organization. A new leader must adhere to the core values present in the organization, a perennial leader must maintain, grow and honor those values, spread them to all relevant stakeholders and parties within and outside the organization.

Depending on core values of the organization, depending on circumstance and context of the business, the leaders can choose whether or not the staff in the company can accept the leading style as follow: arbitrariness, assertive, cooperative, democratic, free lancer. Each style has its strengths and weaknesses and may be the appropriate choice in each context and stage of development of enterprise. In addition to the selected leadership styles, based on the time frame, vision and future perspective of the leader, the approach to diverse aspects and issues in management, development orientation we can identify transactional leadership styles and transformational leadership styles. Unlike transactional leaders who are interested in current business practices and their effectiveness, transformational leaders demonstrate their role as mapping ways for long-term sustainable development, motivating, inspiring, sharing inspirations and aspirations for success and belief in victory for leaders at all levels and all employees. In terms of power and influence, unlike transactional leaders, transformational leaders often use soft and informal power, based on the following key elements:

- Past performance and high professional qualifications.
- Ability to control and process information.
- Ability to persuade others and self-confidence.
- Ability to impact and interact directly and indirectly.
- Prestige, charisma and public trust.
- Ability to handle conflicts, resolve disputes.

Change management

One of the skills that leaders, especially transformational leaders must converge, is change management. With ongoing turmoil in today's business environment, in addition to the operational, tactical and strategic changes at various levels of management, leaders must deal with changes involving the shift of boundaries between business and business environment through mergers and acquisitions that originated in the 1960s and 1970s (mentioned above); changes involving cooperation among enterprises within the value chain; changes that take place in the business environment driven by technology revolutions, especially the information technology and related management methods, openness, globalization and economic integration of the nations. These two factors bring about social, cultural and psychological changes that take place globally and locally. These are constantly changes, involving not just one enterprise but the entire business network, industries, and economies. These changes make businesses and economies more complex, more dynamic, riskier and less predictable. These changes entails learning, knowledge management, and dynamism in information processing and creation of values in a creative way. For these challenges, managers, as transformational leaders, must be well equipped with the skills needed to manage changes, capability, qualities and conditions required to implement them. Just as other management works in the enterprise, change management is a continuous implementation of the following stepps:

- Analysis of business environment.
- Identify changes from the outside and the need to change from within.
- Identify changes that need to be implemented.
- Start the change by creating and sharing with people a new vision of the organization, a new perspective in business.
- Implement changes based on the consensus of stakeholders' groups that share the new vision and prospects of the future.
- Institutionalize changes so that they can take place as the most common activities of the enterprise.
- Analyze the results of the changes that have been made.

Strategic resource distribution and usage

Previously we have dealed with issues related to the feasibility of the strategy. Among the proposed strategies, for many reasons, not all strategies can be implemented immediately. Among the proposed strategies, there are a number of useful strategies that should be put in place to help improve the competitiveness of the business. Among these useful strategies there are several that are considered feasible and if required resources are not available they can never be implemented. Among the strategies seemed to be feasible (in the case of properly allocated resources), there are strategies, that are met in terms of resources, known as feasible, while other are not due to insufficient resources or because of managerial unwillingness to allocate resources for some reason.

Illustration 75: Strategy classification based on feasibility

Source: Own development

As mentioned above, we see the role of allocating resources to the viability (feasibility) of the strategy. Resources are essential to put the strategy into action, so it is imperative to plan and allocate resources appropriately to execute as many strategies seemed feasible as possible to bring about development and prosperity for business.

Resource planning

Illustration 76: Procedure of resource planning in strategy execution

Source: Own development

The main tasks are formed by studying strategic objectives. These tasks are tools that help achieve strategic goals. From the strategic objectives we agree on the main tasks and priorities in their implementation. The priorities of the major tasks may be related to the order, budget of their execution or both. For the key tasks, we need to identify their key success factors (KSFs), related to specific value-creation activities (e.g. marketing research), improving support or functional activities (e.g. distribution), changing linkages in the value chain. Once we have identified the key success factors of the key tasks and priorities (in terms of time, space, budget) needed to implement them, we need to create conditions for their implementation. We need to pay attention to the following aspects:

Financial planning-it relates to the deployment of sufficient and timely budgets for functional departments involved in the implementation of the above key tasks. Middle East countries have abundant financial resources, mainly from oil revenues. However, with such resources, it is unlikely that the implementation of strategic objectives will be effective. The art of capital flow management should be in place in order, within a certain budget, to optimally implement the objectives.

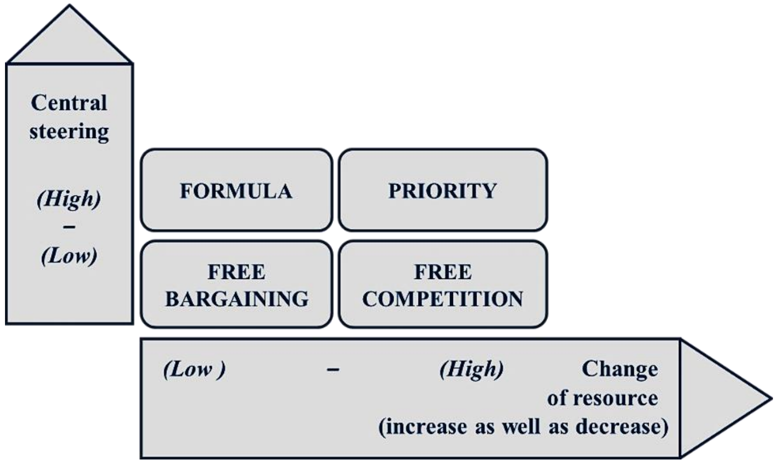
Human resource planning-human resource are more difficult to mobilize than financial resource due to its consistency. Japan and the West are abundant in human resources in areas such as management, science and technology. They have different strategies for using and developing human resources. Human resource management is in fact a soft and extremely difficult art, because motivations are often the basis of human behavior in different cultures. Not all companies know how to attract, use and promote human resources in an optimal way.

Identify the relationships between financial resources planning and human resources planning-human resources are also related to financial resources (e.g. pay for wages, welfare, social insurance, recruitment costs) and we can quantify them relatively.

Company level resource distribution

The allocation of resources (human resources, financial resources...) takes place between functional units (finance, marketing, production...), between departments (whether or not they are in the scope of functions specificity), between the different business units of the company. We need to consider how the allocation of resources will support and influence the implementation of strategy to achieve the overall goals of the organization. Here are some options that can be selected for allocating resources at the company level.

Illustration 77: Company level resource distribution

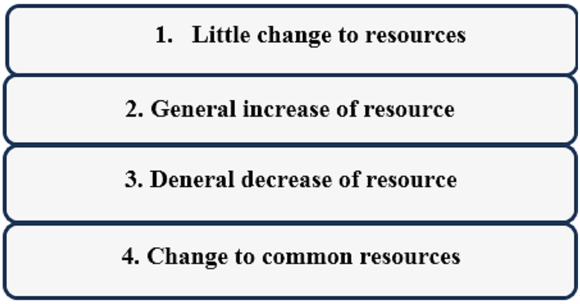


Source: Own development

Resource changes-these are changes in the overall resources or changes in the types of resources (human, material, financial, science and technology information) that can be used to implement strategy. The following are scenarios of changing human resources allocated and appropriate specific allocation options.

Center guidances (steering)-these are instructions and recommendations in resources allocation directed by the supervisor (company leaders) or follow the specific plans of the units in the organization.

Illustration 78: Scenarios of resource change and distribution strategy



Source: Own development

There is little change in resources

Allocation by formula-it is based on quota for each budget. This is an option for defensive trading strategies. In the state remuneration system, wages, bonuses and allowances are determined by the quotas and seniority. In this form, the income of civil servants is kept at a lower average level of the society, enabling them to secure their work and earn extra income from other sources of income and other jobs. But this form does not encourage them to invest in improving their qualifications to be promoted based on own capacity.

Freedom of bargaining-compromises take place between departments, but the center (at the company level) controls the overall benefit of the organization. This approach serves the pioneering business strategy and is more suited to the dynamic and innovative private enterprises with lots of innovations of thinking and business mode.

Growth in total resources

Obligatory priorities-the allocation of increased resources is imposed from the higher levels. One example could be that government priorities for the development of the information technology industry are considered as breakthroughs, creating momentum for other sectors in the economy. Resources reserved for this industry always grow at higher rate than the growth of resources that government spends on the entire economy.

Freedom of competition-departments must bid on for increased resources. Industries must persuade government by demonstrating their essential role in the development of economy so that they can compete for greater resources.

Resources are declining

Compulsory priorities-in context of reduced overall resources, high priority is given to certain sectors. Resources for these industries can even be increased. Priority in the field of military defense is a prime example.

Freedom of competition-departments must be bidding to avoid cutting resources allocated to their units. Strategic sectors in the economy can prove their strategic role as one of the pillars of economy where cuts will directly threaten national security, communication and energy supply.

Resource cuts can be made through the merger, closure of some parts and thereby new parts are created.

General resources

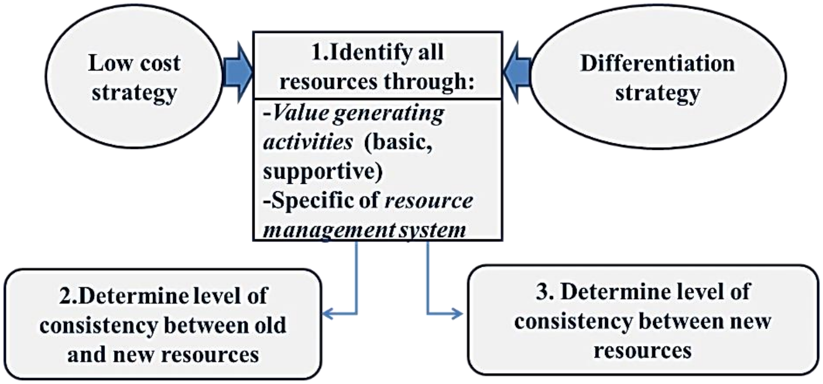
High center guidance-for strategies that depend on collaboration and synhergy of departments, high center guidance for common resources is often applied in companies where their strengths are based on innovation and large public funds devoted to research & development, such as Microsoft.

Low center guidance-for departments, affiliates, and independent business units. Companies in FMCG sector such as P&G, Unilever and Kimberly Clark are examples of this kind of resource use.

Business unit level resource distribution

In parallel with allocation of resources at the company level, similar work is done at the level of business units. At this level, it is necessary to identify which activities in the value chain are most important for the successful implementation of the strategy. For example, distribution and collaboration with suppliers is a key element in the FMCG (Fast Moving Consummable Goods), while investment in R&D to innovate technology is vital for high-tech corporations, such as Samsung, Sony, Apple, Oracle, Microsoft and Sun Microsystems. We should investigate what kind of resources those identified activeties require. through the close connection with the whole value chain of enterprise and partners in strategic alliance

Illustration 79: Identification and resource relevance analysis for basic business strategies



Source: Own development

Identification of resources

- For low cost strategy

Value creation activities for low cost strategies include:

- Main activities-they are related to effective management of inputs, mainly in terms of cost, production process optimization from the perspective of saving raw materials and inputs, effective management of output activities to reach the consumers with the lowest cost possible.

- Support activities for main activities-such as short-term training, vocational training for general workers at factory workshops to improve productivity, restructure the HR staff to cut costs and achieve scale effects.
- Characteristics of the resource management system-the resources and processes of allocating them need to be closely monitored with detailed reporting to avoid unfortunate losses at the production and service value chain level.

For differentiation strategies

Value creation activities for differentiation strategies include:

Main activities-main activities normally involve the creation of strong value added products and services such as product design, marketing research, research and development, invest in improving technology and production capacity and technology transfer.

Support activities for main activities-including work related to organizational learning, boosting corporate culture and discipline in labor, enhancing the spirit of innovation of all employees.

Characteristics of the resource management system-more flexible and dynamic, informal and self-managed, focused on collaborating to increase the value of the enterprise itself and its customers.

Matching new resources with old resources-in the process of changing available resources and introducing new resources to them, managers often face organizational constraints due to resistance and the mismatch between the old and the new (human resources, material resources, financial and organizational structure, technology, governance and leadership). In that context, business leaders need to focus on restructuring and managing change, building a common, enabling platform on which new resources can work together with old resources towards the long-term interests and benefits of the organization. In the long run, for the sake of the long-term interests, it is necessary for the new resources to gradually replace the old ones in a smooth and convenient manner, avoiding conflict, where and when it is needed.

Matching new resources together-linking value-creating activities to a successful strategy needs to take place in context of new resources that work together in a rhythmic way, creating a certain synergy. Managers can also face equally serious difficulties in linking the new resources needed for important value creation activities in the value chain (possibly due to the lack of coordination and match between new human resources added, new sources of supplies come from different suppliers, new financial investments that do not match the maturity and liquidity of the financial structure, and lack of collaboration between new divisions in current organizational structure, new technologies from different manufacturers, lack of certain compatibility, new mutual contradictory management and leadership approaches.

Procedure of strategy implementation

Strategy execution (implementation) is a process of transforming strategy into policies and action programs to be implemented through organizational structure effective in allocating and controlling resources to achieve goals set in the plan. Difficulties encountered when implementing the strategy are: exceeding the time and budget limit due to many situations and developments beyond the forecast, many tasks have to be reworked, management and coordination's performance shows many weaknesses which are not easy to overcome, many tasks have not been arranged properly, lack of motivation necessary to engage people and staff members in strategy implementation. These difficulties arise from the nature and following characteristics of the implementation of strategy:

- Strategy implementation is a collaborative work (motivating, linking, communicating, building and managing relationships) between units (business or functional), between units and individuals, amongst individuals. Thus, organizational culture and leadership style will support and influence the effectiveness of this work.
- Strategy implementation is a continuous work (policy, organizational structure, time, program of activities and budget) to adapt to new conditions of business environment and the new context of enterprise. Therefore, managers need change management skills to handle new situations that may happen unexpectedly.

The following are the key steps in the implementation of the strategy.

Illustration 80: Steps in strategy implementation

Source: Own development

Step 1: Check and re-evaluate the conditions of internal and external environment

The business environment inside and outside organization is always changing and there are unexpected developments beyond the control of business. So, before and even during the implementation of strategy, important factors in general business environment and industry environment should be reviewed. It is necessary to revise defined objectives, the content of strategy that has been formulated, adjust them if necessary before putting into operation so that they fit the new context.

Step 2: Build an effective organizational structure

The organizational structure needs to be developed and, if necessary, revised before the strategy is put into operation. Organizational structure is seen as a tool to assign tasks, authority (power) and responsibility, to build teamwork, and to distribute valuable resources to help realize the strategy. When adjustments are made to the content of strategy being implemented, organizational restructuring is needed to better align with the changes that have taken place.

Step 3: Deploy strategy into action programs

These activities include: identifying short-term goals (mainly quantitative) and related tasks; mobilizing necessary resources so that each unit and department can perform their tasks; implementing policies and other forms of support so that units, departments or individuals can better implement their work, and continually innovate.

Step 4: Allocate resources closely to the needs

With regard to short-term objectives, resources have been mobilized, policies have been implemented; the next task to do is to allocate resources appropriately to save costs and raise economic efficiency of the process of implementing strategy. First, there should be flexibility in allocating resources as there are always some adjustments to the objectives and tasks. Equity, fair competition in access to resources needed and certain priorities for key missions that have an important impact on the overall goal must be ensured.

Step 5: Make necessary adjustments, address issues arised

As described above, continual adjustment is indispensable and one of the essences of the strategic implementation process. In the process of implementation of the strategy, more or less issues that need to be addressed involve various aspects of the implementation of the strategy. Handling them wisely and timely will help us achieve higher efficiency and avoid unnecessary troubles in the realization of the strategy towards the goals set.

Step 6: Develop work environment and build organizational culture that fosters successful implementation of the strategy

This work complements previous steps and is most general as it relates to the construction of an infrastructure (such as building working atmosphere, discipline, formal rituals, in customers care and internal staff treatment) as the foundation to ensure the management and operation of the company are convenient and effective, including the successful implementation of strategy. This work is a long process that takes place beforehand and has to be carried out continually and creatively. At time of implementing a certain strategy, the organizational culture environment also needs to be refined to better fit the nature and character of this strategy.

4.3.2 Strategy control

Organization design

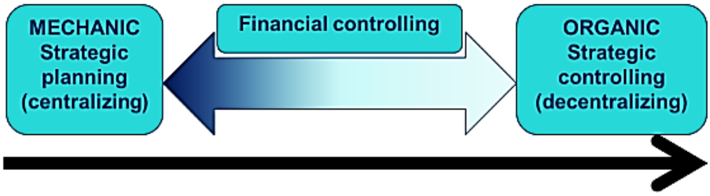
Centralization and decentralization

Organizational structure is a way of organizing human resources of a company, based on which other factors such as control, empowerment, authorization, reporting, and accountability are implemented. Each of the forms of organizational structure has certain degree of centralization. In practice, types of organizational structure in practice are mixed from current forms or in combination with new forms to fit to the current situation of the organization. Centralized organization is of mechanical structure, whereas decentralized organization is organic. They are as follows:

- Mechanics-organizations are the means to implement and control strategy in the less volatile business environment previously.
- Organic structure-a flexible, dynamic structure that makes it easy for enterprise to adapt and respond to changing business environment by stimulating creativity and promoting innovation.

The following are some types of organizational structures in practice with different levels of (de)centralization.

Illustration 81: Organization structure from centralization to decentralization



Source: Own development

Strategic planning-the organizational structure for strategic planning is usually rigid, mechanic, formalized, focused on supervision, control, and centralization also in terms of financial distribution. Strategic planning is a process of building a top-down objectives' system, accompanied by an annual budget that decomposes into smaller periods as a tool for control. Strategic planning is a process that imposes goals and objectives for managers of departments, centers and all staff members recommended by top management, so it is difficult to get enthusiastic participation from parts of the organization. Strategic planning is appropriate for state-owned companies operating in relatively stable business environment of public sector, unlike private enterprises that have to cover themselves in risky and unpredictable external business environment.

Financial control-the organizational structure of financial control's type focuses on centralized financial management, while other areas are delegated to business units. The business units themselves will make decisions on business strategies, markets and products, autonomy in terms of looking for investment capital, taking responsibility for their business plans. Meanwhile, senior management of the parent company, acting as a shareholder in the business units, is tasked to set goals and financial targets for them and evaluate the implementation of the plan to achieve those targets over time.

Strategic control-with strategic control's structure, the Center (parent company) agrees on business plans of the divisions (business units) proposed by themselves. Center identifies and unifies support policies and allocates resources to those departments based on the proposed business plans. Based on the proposed business plans and approved and allocated budgets, Center will control and evaluate the performance of its departments.

Following are some of the basic advantages and disadvantages of organizational structure that are implemented in a centralized and de-centralized manner.

- Centralized organizational structure (centralization)
- Advantages
- Achieve consistency in strategy
- Make decisions faster
- Easy to control and allocate resources
- Disadvantages
- Difficult to adapt to local conditions.
- Difficult to develop management capacity.
- High cost.
- Decentralized organizational structure (decentralization, decentralization)
- Advantages
- Respond quickly to market changes.
- Enhance positive thinking and enthusiasm.
- Reduce the load on top management issues.
- Disadvantages
- Define boundaries and cooperation between Center and business units.
- Ignoring the common goals of the company.
- Difficult decision-making from the central.

Requirements for organization design

Determining the appropriate organizational structure is the key to ensuring that the implementation of business strategies in enterprise is conducted efficiently and smoothly. To be so, the following conditions must be met:

a) Parts in organizational structure must ensure the effective performance of the tasks assigned to them in enterprise-tasks, responsibilities, rights and interests must be clearly defined, avoiding overlapping and wasting resources and the phenomenon of “for common dead father no one cry”.

b) The organizational structure must be adapted to the selected strategy-select the type of organizational structure that suits the strategy that the enterprise is pursuing; that suits business environment being the context corporate strategy implementation. In the implementation of corporate strategy, attention should be paid to the informal structure that is gradually forming and exists in parallel with the formal structure that has been designed and put into operation.

c) Effective human resource placement-human resource is active resource that plays a key role in the implementation of the strategy, so this resource needs to be used optimally to achieve the expected results. In contrast to other resources, the mobilization of this resource requires certain level of managerial ingenuity as well as interdisciplinary field of practical knowledge related to sociology, psychology, and anthropology. Learning, leadership... The following are key tasks that need to be done to effectively allocate human resource:

- Form core management teams-seek both internal and external key business leaders for key positions in departments, divisions to perform important tasks assigned by top management. These leaders will be the examples and the guidelines for staff members to follow.
- Recruit and retain talented and dedicated staff-besides key executive managers, there is also a need to recruit, retain qualified and professional personnel to effectively carry out the work that key executives entrust.

d) Developing highly competitive human resource-today's enterprises compete on basis of human resource, its experiences, capabilities and valuable assets. To do this, enterprises must:

- Continuously improve competencies-of managers at all levels and staff members in all divisions through training, empowerment, decentralization, authorization, enforcement of labor culture and discipline, internal exchange cooperation, opportunities for learning, development and promotion in accordance with qualification of individuals.

- Coordinate human resource to improve overall capacity of organization-create synergy effect in bringing into full play the human potential.
- Modernize organizational structure to adapt to changes in the competitive environment-one should not be satisfied with everything and need to constantly change and innovate to move on in fast changing business environment to maintain and consolidate existing competitive advantages.

Factors impacting organization design

- The type of strategy-organizational structure is a tool for implementing and controlling strategy, so the type of strategy chosen for deployment will be the determinant of the type and nature of the organizational structure.

▪ For low cost strategy-organizational structure is often mechanical (classic, traditional). In this type of structure, managerial work is often based on bottom-up and top-down reporting, with clearly defined tasks, both in terms of time, place, and budget.

▪ For differentiation strategy-mobile structure to encourage creativity, organic control, mainly based on self-control and to promote the sense of responsibility of individuals through motivating and and inspiring staff members.

▪ For quick response strategies-dynamic organizational structure, each individual works with high sense of responsibility to encourage creativity, quickly react predict and anticipate changes in the business environment and the moves of competitors.

Characteristics of the organization

- Scale-the size of enterprise has a great influence on the type of organizational structure that enterprises have chosen. In the process of development of enterprises, with increasing scale of personnel, sales, market share, partners and stakeholders, enterprises have to give up the old structure to switch to forms that suit current and future development.
- Type of ownership-ownership is also one of the determinants of the type of organization. State-owned enterprises are often more rigid and less dynamic than private firms. Foreign-invested firms often

experiment with new types of organizations to bring about innovations and competitive advantages that are a springboard for their specific business strategy.

- Organizational culture-organizational culture also contributes to determining the appearance of structure within an organization. A culture of innovation together with young staff trained in today's era of information technologies, there is no reason for companies not to experiment with new organizational forms to bring about innovation and competitive advantage as a springboard for their specific business strategy.
- The capacity and quality of management staff at all levels and non-executives-their high adaptability to the unfavorable developments in the business environment in general and the technology environment in particular will be the main driving force for companies to adopt and implement new organizational models, such as virtual organizations, enterprise networks, Internet-based operations and associated services of the digital economy.

Technology and operational processes

Mass production-the characteristics of mass production are: high standardization, formal decision, regular control, and centralized management. With the mass production of such stereotypical output, the organizational structure does not need to be so much unique, but needs to be simplified, operating efficiently to be able to extend this model into multiple versions to reach the advantage of scale.

Advanced technology-with advanced technology, enterprises can apply very mixed organizational structures to promote the advantages of different types of them. Businesses need to have a centralized structure in some respects, but they need different types and shapes of structure in some respects.

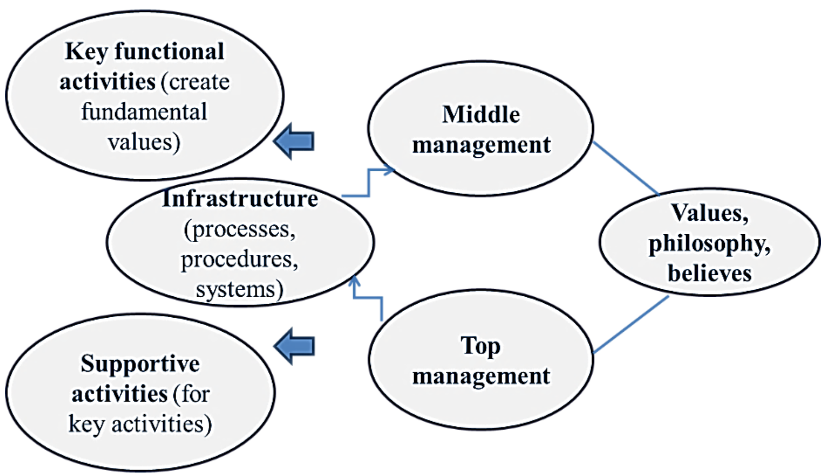
The degree of volatility and specificity of the business environment-the specific of industry, in which the characteristics of the business environment may be different, leads to the conformity or non-conformity of different types of structure. Businesses also need to be flexible in the use of different types of structure depending on time and characteristics of the market where their output is being consumed.

Shaping organizational structure

As mentioned above, there are many different types of organizational structure, at least eight of them (online, functional, online-functional, business-oriented, customer, product, matrix structure, horizontal structure). In addition, there are many forms of mixed structure. Organizational structure's types can move dynamically within the two extremes: centralization and decentralization. Although different in terms of form, style, degree of decentralization (and centralization) and scale, viewed from perspective of components, the foundation of an enterprise includes activity blocks presented in the figure below.

- Core values, business philosophy, beliefs
- High-level management activities
- Middle management activities
- Technical infrastructure
- Core activities
- Support activities

Illustration 82: Activity blocks



Source: Own development

Activities of an organization must be based on values, philosophy and beliefs. These values, philosophies, and beliefs are the guiding principles for the selection of management approaches at all levels, the coordination method, the art human and other resource mobilization needed for enterprise to operate and seek development opportunities. Core functional activities create basic values for enterprise such as marketing, human resources, finance and accounting, production and operation, management of inputs and outputs; and support activities, such as logistic infrastructure, IT infrastructure, must be governed by common values, dominant business philosophy penetrated into the mindset and action of each person. Technical infrastructure, such as processes, procedures and systems, will enable organization to carry out functional and interdisciplinary activities in an effective, predictable and consistent manner.

Control system design

Control is a process of reviewing, analyzing, and evaluating each and whole part of the business's operations against established standards for identifying which processes, components of organization have not met standards and need to improve or upgrade. The control process must be done within control system that includes target audiences, control tools and methods, controllers who execute control function. In addition, it is worth to mention procedures and basic principles of control. The procedures will be discussed later. Here we will cover the basic principles to be followed in the implementation of control function.

Firstly, the control mechanism must be consistent with the action plans and control subjects-depending on the control subjects, such as factory workers or R&D staff, the general or small-scale tasks we must resort to control mechanisms, using various control measures in a given context.

Secondly, the control mechanism must be consistent with organizational culture-it is determined by the organizational culture, depending on the nature of each culture (country or region) certain effective control mechanism need to be put in place.

Thirdly, the control mechanism must be consistent with individual characteristics of the manager-depending on management style of executives such as autocracy, democracy, freedom of choice, interests and goodwill in using control tools one can choose the appropriate control mechanism.

Fourthly, control should focus on the core issues-it is impossible to control all the problems, as it will waste a lot of resources and can not bring about the expected effect.

Fifthly, control must have a specific purpose-to know what to control, what to do next, what role and importance of the work that need to be controled.

Sixthly, control must ensure objectivity-control is to find drawbacks and measures to overcome them. To achieve that goal, it is necessary to ensure objectivity and nothing more when the process of control is carried out by objective external personnel who are not involved in the subject and matter being controlled.

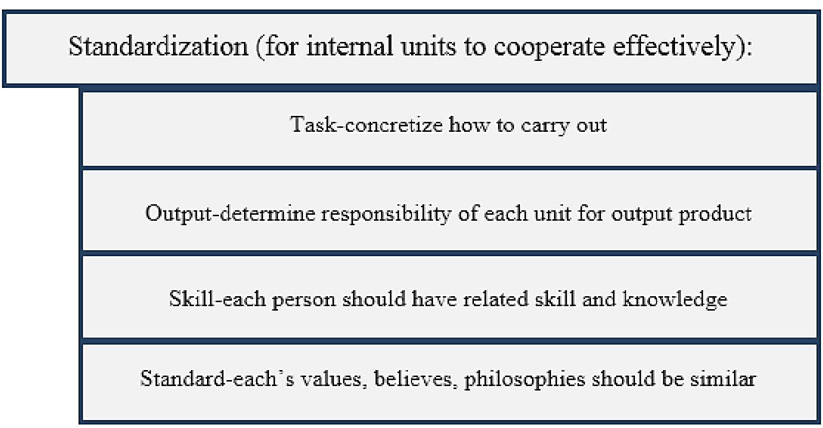
Seventhly, the control must ensure the frugality-not to waste resources during the control process to ensure the effectiveness of the balance between the benefits brought and the cost spent.

Finally, control must be flexible-control should not be rigidly enforced in the constantly changing business environment, with ever-changing factors both internally and externally. This also makes targets and objects of control changed. Flexible control is to respond flexibly and tactfully to these developments.

Standardization and customization

Control flexibility is also expressed in terms of standardization and customization. Each approach to control such as standardization or customization has its advantages and disadvantages. Standardization and customization relate to the need to develop output standards (including qualitative and quantitative assessment criteria) for all jobs, skills, outputs product or service, organizational culture, and business philosophy, so that we can have basis for comparing, evaluating, adjusting and guiding each component (departments, individual employees) in the organization.

Illustration 83: Standardization in control



Source: Own development

Standardization of work-this involves specific ways of doing things in a good and convenient way and criteria to evaluate accomplished task. For highly structured work (detailed work with specific instructions), standardized control can be applied. On the contrary, for non-structural work, such as scientific research, research and development, the application of standardization in control is not straightforward and does not always work. For those jobs whose future can not be determined at the present time, it is difficult to come up with the evaluation criteria or process steps to achieve the final result.

Standardization of output-this involves identifying the role and contribution of internal units to the value of output. This is only possible for traditional product lines, its value has been accepted by the market and its users are verifiable and quantifiable. It is therefore possible to identify which parts contributed to the added value of the product. For new product lines whose usage value has not been perceived by consumers, it is difficult to provide criteria that assess their value (their value may increase or decrease over time) and identify which parts are involved in their value chain.

Standardization of competence and qualities-with familiar competence and qualities known and repeatedly mentioned, standardization to quantify them becomes easier compared to the qualities that the global intellectual economy is demanding. These new capabilities and qualities are constantly changing and it is difficult to develop a set of benchmarks to accurately measure them at different times, different business environments.

Standardize the common issues of the organization-each of the components in the enterprise has its own and general characteristics to express themselves as an integral part of the organization. The common is that core values, beliefs, business philosophies that are accepted, regarded and respected by all staff members of organization. Thus, standardizing them, setting specific standards as common denominators for all the activities, behaviors and attitudes of all members, can help businesses operate more effectively in short and medium term. In the long run, when these standards are universal and well known, they need to be customized to suit each situation in most beneficial and appropriate way, and to create new standards replacing the old ones.

Formality and informality of control

As with the standardization and customization issues mentioned above, a new category also needs to be analyzed, regarding particularly the control as the final stage of management process. That is the problem with the formal and informal work of the control process itself. In enterprise, diverse types of informal structure exist in parallel with formal organizational forms. This also applies to control mechanisms with the function of tracking and correcting weaknesses that exist in the organization.

The question is what form of control should be chosen for a particular organization. In the early stages of business development, that is embryonic stage, when organizational structure, division of powers and influence are unclear, it is necessary to establish discipline, martial law from the beginning through formal forms of control to put the organization into a certain order. For traditional enterprises employing a large number of unskilled workers, too, it is necessary to establish discipline, order, strict control, and punish severely through formal forms such as rules and regulations. However, in today's knowledge economy, especially when enterprises are in stable stages, with increasingly complex and overlapping organizational structure, in order to develop and grow stronger, empowering, delegation, power distribution is inevitable. With such a rigorous and structured control mechanism, it is unlikely that businesses in such a constrained position will be able to generate creative impetus and momentum that foster their integration and development with the world business community.

Evaluation and measurement based control

Control based on evaluation and measurement systems and control based on reward systems are two different extremes of the control process. We talk about control based on evaluation and measurement first. With this control model, qualitative and quantitative criteria will be established to see how the strategy is performing. The following are principles that guide the design and operation of this control system.

a) Distinguish control levels-control work must be done at different levels in the organization: strategic level, tactical level, operational level. At these levels the nature of the measurement and evaluation criteria will be different. At the strategic level, soft and qualitative criteria are usually applied to evaluate the low structured or unstructured work. At the operational level, it is the case that hard criteria applied are closely related to the specific tasks that are clearly defined. These are usually quantitative criteria that evaluate highly structured work with detailed instructions on how to carry out.

b) Create responsibility centers-in addition to the control at different levels in the enterprise as above, the control work also involves the responsibility center, where the work, projects, and programs are being deployed that involve many different departments in organization. Each responsibility center carries out a process that brings specific values to the business and uses specific resources of the business. These centers of responsibility need to be controlled to determine the task of each individual, to identify shortcomings that exist in the performance of the task, and to propose appropriate improvements.

c) Selection of key success factors-based on the key success factors in strategy implementation we can develop evaluating criteria so that they can help enterprise operate and move forward toward better goals.

d) Differences in control and evaluation-depending on the scope of work and their particular characteristics, we should evaluate based on the flexible application of different sets of criteria. These criteria should be adjusted to suit each stage of enterprise development to ensure a fair and unbiased level of impartiality with no exception for anyone.

e) Control is not to catch mistakes-one thing to keep in mind during the control process is that this is not a way of catching up, scouring and punishing, but rather helping the audience to improve itself, improve current work and contribute to the effective implementation of the strategy.

f) Balance between quantitative and qualitative-depending on the level and subject of control enterprise should keep balance between the quantitative and qualitative criteria to suit each case.

Reward system based control

Control through reward systems, as opposed to control based on evaluation and measurement, is positive, motivational, and inspirational. Reward control involves creating an atmosphere of excitement and a positive influence on employees' behavior and thinking toward strategic goals. The reward system consists of financial and non-financial parts. In the reward system design we need to address the following issues:

a) Short-term and long-term perspectives-often for short-term scenarios the reward system consists of mainly financial components and very specific and detailed quantitative assessment criteria. With long-term perspectives the non-financial components are more present in the reward system with qualitative evaluation criteria such as the general judgment and the judgment of consultants the executives.

b) Adopting risk and avoiding risk-these are two distinct trends in organizational attitudes and behaviors. Reward systems can be designed to encourage individuals to take risks, perform highly challenging tasks, or avoid risks and rewards by performing tedious, routine tasks.

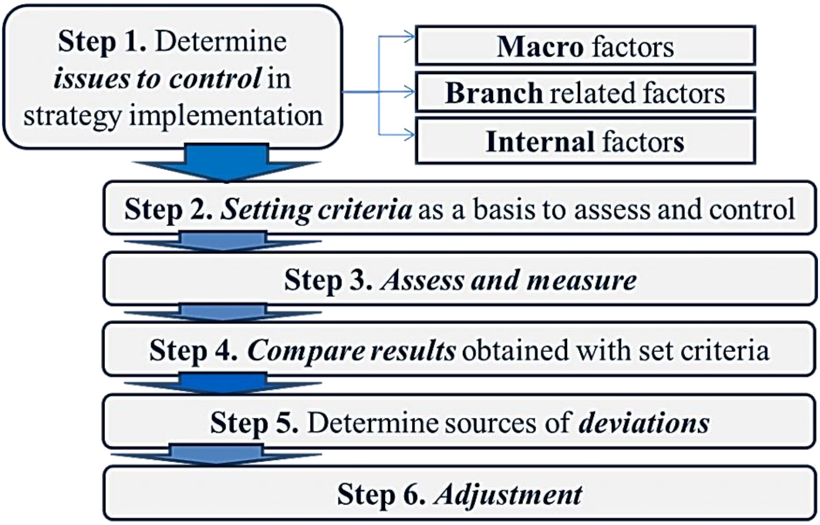
c) Reward for group and individual-both reward for individual and collective have certain weaknesses to overcome and strong points to be promoted. However, cultural factors may also determine which form to adopt. Countries like the United States and Europe often apply personal incentives to encourage creativity and self-control in their work. Asian countries like Japan have applied collective rewards to promote team spirit, cooperation and mutual support to create synergy effects.

d) Perspective of business unit and organization-if the company consists of many independent business units, the reward based on the performance of each unit will lead to partiality which does not promote common interests and the synergy effect between business units serving to strengthen company's overall competitiveness.

Procedure of strategy control

Once the model of proposed control system has been selected, based on measurement, rewards or their combination, after determining the level of customization-standardization of the criteria, the formal and informal level of the control system, we can embark on the steps in the control process described below.

Illustration 84: Control procedure



Source: Own development

Step 1: Identify the issues that need to be addressed in implementing the strategy

Key issues that need to be controlled to ensure success and effectiveness in the implementation of the strategy may fall into the following categories:

- Macro environment factors-it is important to identify which of the segments of the general business environment need to be addressed. These factors may vary depending on industry, specific of company and the business strategy chosen to be implemented.
- Sectoral environmental factors-it is important to identify what pressure in the competitive environment is primarily for the company that needs to be controlled to cope with.
- Internal factors-enterprise always has certain weaknesses and strengths within its own. Depending on strategy being implemented, the range of weaknesses and strengths that need attention and control may differ from those present within enterprise.

Step 2: Set standards as a basis for control

Depending on the level of standardization or customization that has been defined and agreed upon beforehand, it is possible to develop a set of common criteria for each stage, each case and each element that needs to be addressed.

Step 3: Control work-appraise ans measure

Control work can be done through measurement and evaluation system or a reward system or combination of both systems. The combination of these two systems should be flexible, depending on the specific scope of control, at different levels and depending on the subject and matter of the enterprise.

Step 4: Compare the results with the criteria

Depending on the level of standardization-customization of the criteria used for control purposes, one can easily compare and evaluate the results obtained. However, when the level of customization is set to be high, the evaluation is only qualitative and even subjective by professionals or managers.

Step 5: Determine the cause of the deviation

Regardless of high or low standardization or customization of assessment criteria and the results of the evaluation, the performance of the work has surpassed or failed to meet the criteria set. The latter is a search process with a wide range of participants, which can be quickly implemented with very clear results indicating the source of the problem. However, there are cases where finding the causes lasts for a very long time, consuming a lot of resources compared to the benefits.

Step 6: Make adjustments

For each deviation (usually not satisfying the set criteria), regardless of whether or not the cause is found, adjustments must be made to correct it and improve the efficiency, results of the work being controlled to return to the true trajectory. Finding the cause of the deviation will help us to learn from experience and avoid the "trace dump" later when doing other work or similar.

Part C

International Management

Chapter - V

International Marketing Management

5.1 Principles of marketing

5.1.1 Marketing concept

Marketing is an area of research on the needs and on how business can satisfy customer needs in profitable ways. Marketing is both a science (economic science) and an art (to make people satisfied, to gain their trust and sympathy).

Although there is no single definition of marketing, it is usually accepted that marketing consists of individual and organizational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas. So, marketing consists of many activities which are aimed at facilitating and expediting exchanges. Marketing facilitates the satisfying exchange relationships and for an exchange to occur, four following conditions must exist:

- Two or more individuals, groups or organizations must participate.
- Each party must possess something-of-value that the other party desires.
- Each party must be willing to give up something-of-value to receive something of value that the other party holds.
- The parties must be able to communicate with each other to make their something-of-value available.

There is one thing to be remembered that the exchange must be satisfying to both buyer and seller. Satisfaction for the buyer may result from being satisfied with the product and service or with the transaction itself, whereas satisfaction for the seller is derived from making a profit through a particular exchange relationship, or from achieving another organizational objective. Although it is mentioned that there is no single definition of marketing, the concepts of exchange and customer satisfaction are the two most popular components of a definition of marketing.

Philip Kotler (1988, p3) defines marketing as: "…as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others". Before, that is in 1972, he proposed that the essence of marketing is the transaction (exchange of values actually made between parties) and, thus, marketing is specifically concerned with how transactions are created, stimulated, facilitated, and valued.

According to P. Drucker, marketing is about understanding and properly responding to (fulfilling) the needs of customers.

American Marketing Association (1985) defines marketing as: "…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 needs". In other words, the objective of marketing is creating exchanges, and the output of it is customer satisfaction.

Kotler (1997) and Churchill and Peter (1995) defined an exchange as a process in which two or more parties voluntarily provide something of value to each other. According to Kotler (1997), a transaction takes place when an agreement is reached, whereas exchange is the process to execute an agreement. Exchange takes place within a market, defined as a collection of buyers and sellers that interact with each other (Pindyck and Rubinfeld, 1992). In this context, Churchill and Peter (1995) proposed various parties who are involved in the marketing effort: firms that produce goods or services, wholesalers and resellers of goods and services (such as stores), and customers or clients and after-sales service operators.

In an express recapitulation we agree that those above mentioned definitions of marketing rest on the following core concepts:

- Needs-the state of lacking something, both materially and spiritually.
- Wants-the expressions of needs.
- Demands-the expression of needs in certain economic conditions.
- Products-instruments to fulfill the needs of customers.
- Utility-how products effectively fulfill the needs of customers.
- Value-customers benefits brought about by products compared to the price they have to pay.
- Satisfaction-an emotional state to be achieved by comparing real benefits brought about by products and prior expectation.

- Exchange-a voluntary behavior to give up something for something in return.
- Transaction-the exchange expressed in detail by terms of agreement such as price, place and time of a deal.
- Relationship-relation between the buyers and the sellers which could be transactional (one-off) or based on long term mutual benefits and interests.
- Market-a place or space where the buyers and the sellers meet to carry out transactions.
- Marketer-market maker, marketing staff.

It must be clear that marketers do not create needs. Needs pre-exist marketers and hence marketers do influence wants and demands. Defining customer's wants and demands is not easy. Marketers may need to teach customers to learn what they want. Consider high technology products such as iPhone and Nokia as examples.

Marketing occurs in a dynamic environment. It exists in an environment of changing forces such as laws, regulations, political orientations, social pressures, economic issues and competitive conditions and technological changes which will be discussed later in this chapter. These factors influence the effectiveness of marketing in facilitating and expediting changes.

Marketing involves product, place, promotion and pricing activities. In other words, it involves designing and developing a product, communicating and making the product available to the right people at the right time at an acceptable price.

Marketing activities are important to businesses and the whole economy. A business organization must sell products or services or ideas to survive and remain healthy financially and marketing activities, whether directly or indirectly, help sell the organization's products. Marketing ultimately helps to keep the economy alive and healthy. As technology develops, it drives down the cost of globalization and as a result, global competitors are penetrating more markets and this has increased competition tremendously in all major markets. The increase in competition is expected to continue to a level that has never been experienced before. Hence, marketers must think globally, strategically and creatively to maintain their own competitive position. Being offered with more choices and the freedom to choose, customers will become more demanding, making it difficult for marketer to satisfy them and maintain long-term relationships. Mass customization and relationship management are some of strategies that can be adopted in creating better value for customers. Hopefully, through this, customers can appreciate their suppliers better and continue working them.

The marketing concept is certainly not simply another definition of marketing; it is a sophisticated way of thinking or a management philosophy about an organization’s entire range of activities. The marketing concept suggests that an organization should try to satisfy customers' needs through a co-ordinated set of activities that also allows the organization to achieve its goals. Consequently, satisfying customers is the major goal of the marketing concept. The marketing concept stresses that a business organization can best achieve its goals by providing customer satisfaction through well co-ordinated activities. However, a business must consider not only short-run, immediate needs but also broad, long-term desires and needs of the customers. All departments must work together to meet customers’ (consumers') short and long-term desires and needs, and a lack of co-ordination may lessen customer satisfaction or even cause intense dissatisfaction in a strongly competitive business environment.

Essentially, the marketing concept is a business philosophy (Barksdale and Darden, 1971; McNamara, 1972), and the philosophical foundation for a market orientation (Jaworski and Kohli, 1993). Kohli and Jaworski (1990) conceptualized a market orientation as the implementation of the marketing concept. They argued the marketing concept consists of three pillars:

- Customer focus.
- Co-ordinated marketing.
- Profitability.

The evolution of marketing concept embraces three consecutive eras in the economic history of our modern time. First came the production era (*production focus*). During the second half of the XIX century, the Industrial Revolution came into being and started impact all spheres of business world. As a result of new technology and new ways of using labor, products streamed out of factories into the market place, where consumers’ demand for the new manufactured goods was strong. The next period was the sales era (*profit focus*). Between the mid of 1920s and early 1950s, businesses viewed sales as the major means of increasing profits, and business people believed that the major marketing activities were personal selling and advertising. The marketing era (*customers’ needs focus*) arrived in the early 1950s, when businesses found that they had to first determine what customers wanted, and then produce it, rather than simply make products and then try to change customers' needs to fit what they had produced. Today, marketing is acquiring a global perspective, and as a result, marketing either standardizes products for customers around the world or customizes (differentiates) products for customers in specific markets.

5.1.2 Marketing management

After understanding marketing as such, it is now necessary to consider the key role of marketing management in enterprises. Marketing management is defined as a process of planning, organizing, implementing and controlling marketing activities to facilitate and expedite exchanges effectively and efficiently. Planning should be a systematic and continual process that focuses on assessing external opportunities and internal resources. Organizing marketing activities must involve developing the internal structure of the marketing unit to direct them (marketing activities). Implementing the marketing plan should involve all-out co-ordination of marketing activities, employee motivation and effective communication within the marketing unit. Marketing managers must control this by establishing performance standards and evaluating actual performance by comparing it with these standards to reduce differences.

Table 50: Characteristics of customers' needs focused marketing

Marketing classification	
Macromarketing-applied for countries, regions	*Micromarketing*-applied for organization, business
Business marketing-for profit organization	*Non business marketing*-for none profit organization
Traditional marketing	*Online, virtual marketing*
Marketing rules	
Selection	Concentrate on selected market segments only
Concentration	All-out effort to serve targeted market segments
Coordination	All departments should engage to create perfect values for customers
Differentiation	To impress and attract customers to win them from competitors
Values	To fulfill customers' needs in terms of perceived values
Flexibility	Due to quick change in the marketing environment and customers' preferences, advantages and values created for them may be obsolete tomorrow
Objectives of marketing	
Maximum of consumption	Leads to maximum of production to respond to the needs of customers; so the economy is growing and society is developing as well
Maximum of	Leads to customers' loyalty, credibility and trust to the products and

satisfaction	companies' brand
Maximum of selection	Diverse, abundant and broad selection in terms of types, quality, price and substitutes of products and services to satisfy individual, unique and fast changing customers' preferences.
Maximum of quality	Creates values for society to enhance individual's life quality as needs are better satisfied
Roles of marketing	
• Discover customers' needs and satisfy them; be starting point for business activities	
• Balance company's benefits and benefits of customers and society	
• Competitive instrument to position and create reputation in the market	
• Central to all other functional activities in a company	
Functions of marketing	
• Market research and needs discovery	
• Respond to the market needs by adapting 4 marketing instruments (4P)	
• Leading market needs by innovatively creating new products and their functionality	
• Profit making	
• Satisfying customers' needs and achieving own goals in coordination with other functional activities	

Source: Own development

It is now important to consider implementing the latest marketing concept (marketing era, focus on customers' needs). We have already established that the marketing concept affects all types of business activities. Therefore, the top management of an organization must incorporate the marketing concept so completely that it becomes the basis for all the decisions and goals set for their firm. Management staff must implement the marketing concept by establishing an information system that will enable the firm to learn about customers' needs and use the information internally to create satisfying products Next, it is necessary to restructure the firm to co-ordinate all activities. However, there is a limit to a firm's ability to satisfy customers' needs for a particular product, so the company must determine customers' product needs accurately. Sometimes, by satisfying one segment of the society, a firm creates dissatisfaction within other segments. During the implementation the marketing concept, a firm may encounter difficulty in maintaining employee morale during any restructuring required to co-ordinate the activities of various departments and care must be taken to minimize organizational problems.

5.1.3 Marketing strategy

Companies get into serious trouble because they believe they can duplicate a product of competitors and can easily produce the same products at lower price. A glaring example is the economies of scale that a Chinese company in China can exploit. While one may argue about the lower production cost and lower labor cost, eventually, Chinese labor cost will rise. Marketing strategy involves selecting and analyzing a target market and creating and maintaining an appropriate marketing mix that will satisfy that market, and that is the responsibility of an organization's marketing managers. They should consider two broad sets of variables when developing and managing marketing activities. In other words, those sets of variables are shaping marketing strategy and marketing activities of an organization. First, marketing mix decision variables are internal factors impacting directly and frequently (the micro-external environment) or indirectly and infrequently (the macro-external environment) on enterprise's marketing activities over which an organization has control. Second, marketing environmental variables, the external factors related to policy and strategies of enterprise, which are subject to less control by an organization. Internal and external factors/variables contribute to the marketing environment which, according to P. Kotler, impact on the capacity of marketing management toward successful transactions for and with target customers. In light of current trends of globalization, both external and internal group of factors are becoming:

- More complex-as they impact heavily and in different way on efforts and marketing decisions of enterprises.
- More changeable-as they impact on the results of enterprises' marketing programs causing them to be necessarily readjusted.
- Less predictable-as they are more and more uneasy to control.

Environment analysis

We should now consider internal organizational factors that assist marketing managers in achieving their aims. Organizational objectives, financial resources, managerial skills, organizational strengths and weaknesses and cost structure are the primary internal factors to consider when analyzing market opportunities and organizational objectives. It is vitally important that the organization should pursue external opportunities that are consistent with its objectives and resource. For example, financial resources restrict the types of opportunities the organization can pursue. Financial resources are needed to operate marketing plan in terms of, for instance, paying salary for hired marketing staff, leaflets designing and distributing. Also management's skills and experience can limit the types of opportunities pursued as they will put forward general directions for enterprise and execute related goals, to which all marketing plans and programs must conform. Strengths and weaknesses of the firm may involve many factors and could include specialized skills and technology. Information and production technology are strictly associated with quality and price, the two of four marketing instruments, of products and services. The organization’s cost structure can be affected by many things such as geographic location, employee skill mix, access to raw materials and equipment and facilities. All the previous points should be considered and evaluated in pursuing the enterprise's objectives.

Illustration 85. Internal factor analysis

Source: Own development

The business environment is changing erratically with much changes taking place in all aspects of the global environment. Marketers need to constantly assess the business environment in anticipation of these changes so as to be able to react quickly and take advantage of them. For example, being in the business of supply chain management, a supporting industry that can ride on the growth of many other industries, marketers must consistently look outward for developments that can provide new growth opportunities for the organization. Listed below are some issues that are impacting supply chain businesses around the world, and they are either happening now or will be in the near future. It is now necessary to consider environmental forces; there are seven major forces in the marketing environment: (1) political forces, (2) legal forces, (3) regulatory forces, (4) social forces, (5) economic forces, (6) technological forces and (7) ecological forces. These forces affect the marketer's ability to facilitate and expedite exchanges in several ways. They affect customers' lifestyles, living standards and product preferences. Moreover, they influence whether and how marketing managers can perform marketing activities, and may affect buyers' reactions to the firm's marketing mix. The fluctuation of the various forces and their speed of change present many challenges to marketing managers. The marketing mix components together with the above mentioned external factors affect greatly the organization.

The environment in which a marketer competes can be broadly categorized into two major categories; they are macro-environment and micro-environment. The macro-environment refers to the broad environment in which a business exists and this generally refers to the country in which the business is being conducted. Forces of this nature affect all kinds of businesses. The micro-environment is more specific to the business and this makes reference to the specific industry in which the business is competing and the forces in this environment will be examined in the later. Situational factors in this environment affect the performance of an organization, and more importantly, they are changing with time. Therefore, it is imperative that marketers are kept abreast of these changes so as to be able to take the necessary measures when the need arises.

In the macro-environment, the common model used in this analysis is the PEST model. This is the acronym for:

- Political forces-forces in the political and legal frameworks.
- Economic forces-the driving economic factors affecting the well-being of a country.
- Social forces-this encompass the social and cultural factors that can affect the organization.
- Technological forces-technological advancement varies with countries and regions and this also play a role in the way a business is being conducted.

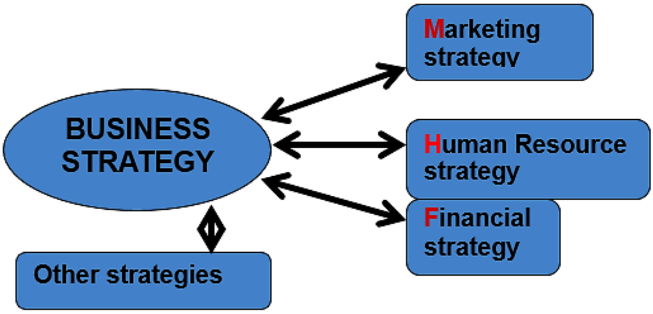
Illustration 86: PEST model-external factors analysis

Source: Own development

Marketing strategy and business strategy

Marketing strategy is one of the functional strategies serving to carry out business strategy to reach the goals of organization. Among functional strategies marketing strategy, human resource strategy and financial strategy are three must-be functional pillars in each organization. Organization should have been structured that means being divided into different departments with people working in there to perform certain tasks and functions. Without staff, an organization ceases to exist. Each organization performs certain services or/and offer certain products to external customers on or commercial or non-commercial basis, it engages the marketing function to carry out mission effectively to achieve determined goals regardless the need to be profitable (businesses) or not (public institution). So we could classify marketing into two following categories: business marketing (profit oriented) and public marketing (public goods and services' delivery effectiveness oriented). Each organization, for-profit (making money) or non -profit (serving as infrastructure for other for-profit organizations), lives in financial world. That means the organization have to remunerate its staff for their task performance, pay for services delivered by other business partners helping it in reaching missions and goals, to pay taxes, to receive financial resources from governmental funds, shareholders or goods, money for goods sold or services performed. So marketing, human resource, finance are indispensable pillar helping in carrying out general and overall business strategy of an organization (Illustration below).

Illustration 87: Marketing strategy and business strategy



Source: Own development

Marketing strategy and its nature differ significantly in terms of the way to support business strategy and goals. It depends on the fact whether the organization is private (business and profit oriented) or public (effectiveness of service delivery for the whole society and national or local economy). For both kinds of organization marketing strategy and functions derived from this strategy should be integrated with business strategy. That means mutual comprehensive understanding should be in place between the board of general directors and marketing department chief together with marketing specialists in order to reach synergy effect of effective and multidimensional cooperation.

5.1.4 Marketing mix

The marketing manager must consider the development of a marketing mix and this consists of four components that can be varied by type and amount. The marketing mix of Product, Price, Promotion, and Place was introduced to marketing education by Jerome McCarthy in 1960s (McCarthy 1960). These mnemonically easy-to-remember labels rapidly became the organizing structure for virtually all introductory marketing textbooks. Since then, there have been many advances in marketing thought and conceptualization, including the broadening of the marketing concept (1970s), an emphasis on the exchange transaction (1980s), and, most recently (1990s), the development of Relationship Marketing and Total Quality Management. Each of these advances has posed challenges to McCarthy’s four P’s. However, McCarthy’s core concept is quite robust and stands the test of time.

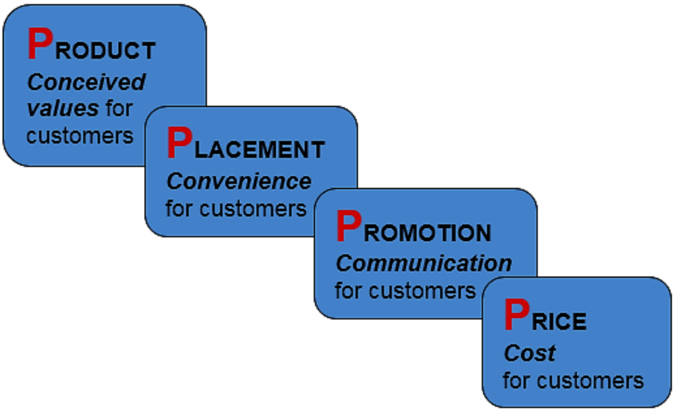
- First, the *product* variable which can be a good, a service or an idea. Also, creating and altering packages, brand names and accompanying services are product variable decisions.
- Next is the *place* (distribution) variable. To serve its customers adequately, a firm must evaluate alternative distribution methods. Marketing managers must make products available in the desired quantity to as many customers as possible (marketing channels management) and hold total inventory, transport and storage costs as low as possible.
- The third, *promotion* variable is the element of the marketing mix and that facilitates exchanges by informing one or more groups of people about the organization and its products. It is used for a variety of reasons: to increase public awareness of the organization, to make consumers aware of a new brand, to educate consumers about a product's features, to convince them about advantages of products, to build image of enterprises.
- The forth, *price* variable, a final element of the marketing mix. Consumers are interested in product prices because they are

concerned about the value obtained in an exchange. Marketing managers are usually concerned with establishing pricing policies and determining and adjusting product prices. Price can also be used to establish product's image and marketing managers must consider this in developing a marketing strategy.

The mentioned four elements of marketing mix should be seen from customers' point of view (see illustration below) and work closely together. Their effectiveness of cooperation may differ, depending on:

- Resource (human, material, finance, information on science and technology development) and position of enterprise in the market.
- The character and life cycle of a product.
- The feature of a given market segment and other factor pertaining to macro business external environment.

Illustration 88: 4P marketing mix from consumers' view



Source: Own development

The marketing mix is a set of the given marketing tools or instruments one can use to pursue its objectives in the target market. In terms of products, first element of marketing mix, they could be perceived in a much broader view, encroaching or even including scope of other marketing tools. In that sense, product consists of three layers:

- Product, in a true sense-function (1), design (2), packaging (3), features (4), price (5), efficacy (6)
- Services, accompanying product-before sales (1), during sales (2), after sales (3), delivery (4), guarantee (5), availability (6), advice (7), add-ons (8), return (9)

- Intangibles, related with subjective judgments-values proposition (1), quality perception (2), reputation (3), image (4), brand name (5), recommendations (6)

5.1.5 Segmenting-targeting-positioning

We should now consider the ways of selecting target markets. There are two widely used approaches to identifying target markets: *the total market approach* (mass marketing) and the *market segmentation approach* (target marketing). In the total market approach, or undifferentiated approach, the organization designs a single marketing mix and directs it at a total market for a particular product. The assumption is that the needs of the target market for a specific kind of product are very similar, thus the business can satisfy most customers with a single marketing mix. However, the trend is far away from the total market approach. Even so, there are two requirements for effective use of this total approach: a large proportion of customers in the total market must have similar needs for the product, and the organization must be able to develop and maintain a single marketing mix that satisfies customers' needs.

In essence, to summarize what we presented so far, it is worth to remind what marketing hopes to achieve:

- Determine current and future requirements for each segment
- Analyze and incorporate requirements into strategic plans
- Evaluate and improve process for determining customer requirements
- Evaluate and improve customer relationship management process
- Evaluate and improve the process of determining customer satisfaction
- Use the information to develop and improve strategic plans

In an increasingly competitive marketplace, companies are intimately involving their customers as partners in building and sustaining value. Mass marketing may become obsolete especially as consumers become better informed and increasingly demanding about any product or service. Accordingly, business strategies are evolving to maximize product or service penetration. It is not enough to simply find a descriptive way to categorize segments of the market. To be valuable, each segment must have something in common, something which allows marketers to meet their needs specifically and more effectively.

Market segments are groups of customers who have the same needs and so act similarly in response to a value proposition and marketing mix. The market segments are related to certain specific needs to be fulfilled. Marketers must decide which market segments to enter. A marketing program that covers all elements of the marketing mix can be designed to suit the requirements of targeted segments. When it comes to a marketing program at FMCG manufacturers, segmentation has evolved into a multi-faceted approach to customer needs assessment, delving into behavioral and psychographic variables such as personality, loyalty or value sets. From point of view of these, it is clear that customers will create and belong to clusters. These clusters form what we term as market segments. Market segments should have the following features: homogeneous, distinct, large enough, accessible and viable.

Market segmentation is the process by which customers in markets with some heterogeneity can be grouped into smaller, more similar or homogeneous segments. Segmentation is a process whereby companies divide their client base into sub-groups based on standard demographics such as age, gender and income in order to identify target groups. Segmentation is appropriate for heterogeneous markets whereby customers have different requirements. Indeed, in completely heterogeneous markets, the only way to satisfy everyone is by offering tailor-made products. In most markets, however, the aggregation of customers into groups with similar product needs and wants is feasible. By segmenting the market a firm may gain several advantages. It is possible to achieve a better understanding of customer needs, wants and characteristics, assuming proper research is carried out. On a related point, marketers who are closely in touch with segments can be responsive to slight changes in what target customers want. Some segments may be too small which could raise the cost of marketing. Conversely, a large base may not necessarily be ideal either. An example is when a campaign is needed to target a group within a limited time and there may be insufficient resources. However, one could argue with long term planning and email blitz.

Table 51: Advantages and disadvantages of segmentation

Advantages of segmentation	Disadvantages of segmentation
Better understanding of customer needs, wants and characteristics	Small segments could raise the cost of marketing
Responsiveness to slight changes in what target customers want	Limited time and insufficient resources
Discover and explore new potential market	

segments and opportunities (niches)	
Better competitiveness and economic performance	

Source: Own development

Here are some important *criteria (variables, bases)* usually used in the market segmentation:

- Demographic variables-include age, sex, family, race and religion, and have been shown to be closely related to consumers' product needs and purchasing behavior.
- Socio-economic variables-include income, occupation, education and social class, and sometimes these variables are included under the demographics label.
- Geographic variables-include climate, terrain, natural resources and population density and are particularly appropriate for international marketing.
- Personality, motives and lifestyle.
  - Personality can be useful when products are similar to competing products although segmenting a market according to personality has caused problem since some market research shows weak relationships between consumer choice and personality traits.
  - Motives can also be used in segmentation. Here markets are divided according to consumers' reasons for making a purchase and such things as product durability, economy, convenience and status all relate to motives.
  - Lifestyle is a further consideration and it encompasses rather numerous features relating to peoples' activities, interests and opinions. It is used to segment markets according to how individuals spend time, their values and beliefs, and gives a broad view of buyers based on their activities, interests and opinions.
- Product-related characteristics – which includes: purchase behaviors, like brand loyalty or price, durability, uniqueness; the purchase occasion such as emergency purchase or routine rebuy; the benefits sought, e.g. customers buying toothpaste seek different benefits, which may include taste, fluoride protection or fresh breath; consumer behavior and user status, for example, whether consumption is light or heavy; and attitude to a product, as consumers have different perceptions and preferences for particular products.

We will now consider whether a firm should use single-variable or multi-variable segmentation. *Single-variable segmentation* is achieved by using only one variable and is the simplest and easiest form to use. Unfortunately, it enables marketers to be only moderately precise in designing a marketing mix to satisfy individuals in a specific market segment. Alternatively, *multi-variable segmentation* is achieved by using more than one variable. This can be much more beneficial since the marketer gains more information about the individuals in each segment and can more precisely develop a marketing mix to satisfy individuals in a specific segment. However, the number of segments created increases, reducing the sales potential of many segments. Whichever strategy is adopted, segments must be measurable and easy to identify so those segments can be compared with respect to estimated sales potential, costs and profit. Also, segments must be substantial so that they have enough profit potential to justify the development and maintenance of a special marketing mix for the segment. The segments must be accessible so the organization can reach it with a particular marketing mix, and must be reasonably stable over time so that action taken has a chance to work. We have already said that marketing research is necessary, and understanding the profile of marketing segments is a common application. A comprehensive understanding of what the individuals in segments are like is essential to organizations.

Consumer and organization market segmentation: The segmentation bases between consumer and organization markets may differ significantly. Variations in organizations' demands result from difference in climate, terrain, consumer preferences and size or similar factors. Also, the required product features, distribution systems, price structures and selling strategies may vary among different types of organizations. A further consideration is how a firm uses products as this affects the types and amount of the products purchased and the manner in which they are purchased.

Table 52: Segmentation criteria for consumer and organization market

Consumer market	
Criteria of segmentation	**Characteristics of segment**
Geographical region	Metropolitan-Countryside Domestic-International North-Central-South Plain area-Mountainous area
Demographical and sociological	Age; Sex; Householder’s size; Income; Marital state; Education; Profession
Psychological	Personality Lifestyle

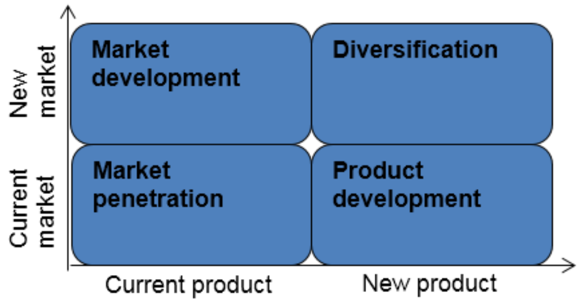
	Style Purchasing motivation
Consumer behavior	Contingency of buying Benefit sought for Product usage Product loyalty
Organization market	
Criteria of segmentation	**Characteristics of segment**
Geographical region	Domestic-International North-North-East-North-West Central-North-Central-South-Central South-South-East-South-West
Company's characteristics	Form of ownership Size and organizational structure Features of activities
Purchasing characteristics	Procurement policy Procurement procedure Size of order Frequency of order
Supplier's characteristics	Diverse source of supply Relationships with partners Long-term commitment

Source: Own development

Segmentation strategy: There are several ways in which an organization can react to the market opportunities.

- **Market penetration:** Can be adopted and this involves increasing sales in present markets by taking sales from the competition.
- Product development-offering new or improved products to current markets.
- **Market development:** This involves developing existing products in new markets by finding new applications and /or customer groups.
- **Diversification:** The most risky strategy, i.e. moving into different markets by offering new products.

Illustration 89: Ansoff's product-market matrix

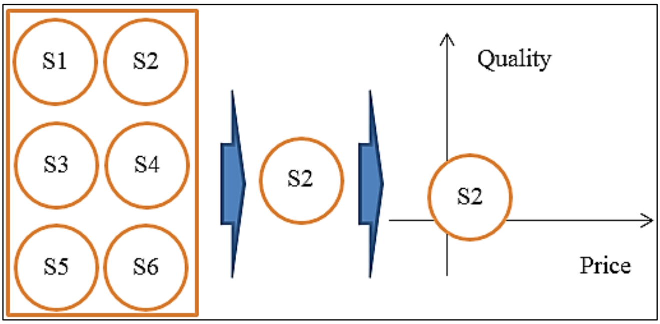


Source: Own development

The next few sections will deal with the process of segmentation, targeting and positioning (S-T-P). Here, in the following section, we have a procedure for S-T-P process:

1. Segmentation
   a. Design criteria for segmentation
   b. Identify segments based on given criteria
2. Targeting
   a. Evaluate attractiveness of each segment
   b. Select the target segments
3. Positioning
   a. Identify possible positions for each target segment
   b. Select best and feasible positions
   c. Develop marketing strategy toward selected position

Illustration 90: STP process



Source: Own development

Since most markets are characterized by intense competition, marketers need to understand the nature of this competition. Consequently, decisions about which segments to target and what kind of competitive advantage should be sought can be made. The decision becomes even more apparent when we consider that companies have limited resources. Therefore, to target the whole of a market is usually unrealistic. This means that the effectiveness of personnel and material resources can be improved by a more narrow focus on a particular segment. The strategic nature of the marketing concept provides perhaps the best advantage, namely dividing markets up allows companies to develop plans to suit the particular needs and requirements of customers in different segments. It will also be appreciated that time scales covered by strategic plans can also be structured accordingly. The process by which segmentation takes place consists of segmentation, targeting and positioning, each of which requires thorough research. When *segmenting* the market the manager must consider variables for segmenting the market, including profiles of emerging segments, and then validate the segments that arise. The next step is to decide on a *targeting* strategy and here the manager must decide whether to concentrate on a single segment with one product, or offer one product to a number of segments, or even to target a different product at each of a number of segments. This depends on the decision as to which and how many segments to target. The next step is then to *position* the product. The key here is to understand consumer perceptions then to position the product in the mind of the consumer with the design of an appropriate marketing mix. This procedure is for disaggregating the total market. We should consider the selection of segmentation variables, the dimensions or characteristics of individuals, groups or organizations that are used for dividing a total market into segments. We should also consider two main factors when choosing segmentation variables. First, the variable should be related to peoples' needs for the use of, or behavior towards the product. Second, the variable must be measurable.

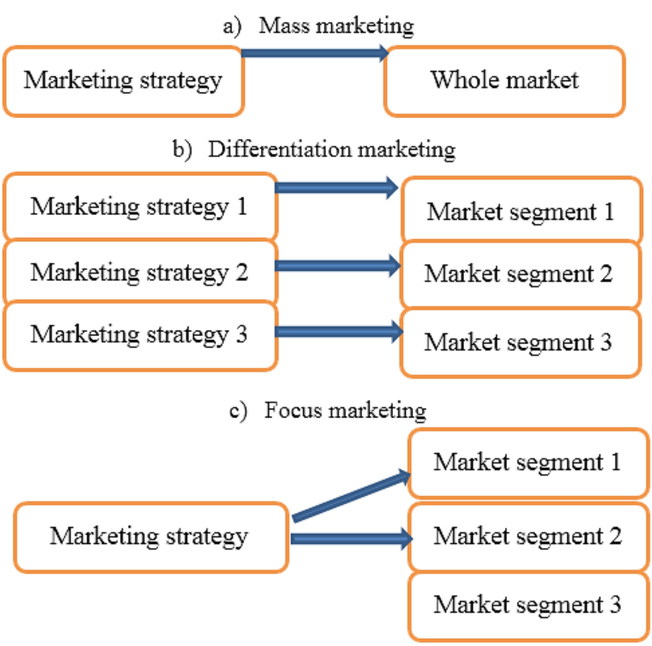
After segmentation has taken place the firm should decide on its *targeting strategy*. Target market is a set of customers sharing same criteria of segmentation and the organization is determined to serve them and direct all marketing activities to them at profit. Companies select target market segments based on their:

- Resource and competitive capacity.
- Business goals-in terms of the ambition of the leadership.
- Uniformity of products-in terms of product lines available.

- Uniformity of the market-in terms of needs, behavior, attitudes and reactions to marketing efforts of companies.
- Competitors' strategies.
- Specific of the sector in which they operate.

There are three types of marketing strategy in general. With concentration (focus) strategy, the organization directs its marketing efforts towards a single market segment through one marketing mix. The advantage of this is that it gives the firm an opportunity to analyze carefully the characteristics and needs of a distinct customer group and then focus all efforts into satisfying that group's needs. Also, it enables a firm with rather restricted resources to compete with much larger organizations. However, the problem is that if the company's sales depend on a single segment and that segment's demand for the product declines, the organization's financial strength also declines. Therefore, a spreading strategy may be more appropriate, i.e. targeting a number of segments so that not all the resources are tied to one segment. Unfortunately, with few resources a firm may not be able to put the required resources into attempting this strategy. Consequently, only a limited amount of segments can sometimes be targeted.

Illustration 91: Selection of target markets



Source: Own development

Position of a given product or brand is a set of impressions, feelings and notions of customers about one brand or product in comparison with other brands or products. Positioning is to use all marketing efforts to build an image of product, brand or even of company in comparison with those of the competitors in customers' awareness and recognition.

It is now important to consider *positioning strategies*. The main point to notice is that positioning is not what is done to the product, it is what is created in the minds of target customers, and the product must be perceived by the selected target customers to have a distinct image and position vis-à-vis its competitors. At this juncture, it is appropriate to discuss what marketers should know about competition. Competition is not about just at the product level but at various other levels.

The product must stand out and have a clearly defined position. In-depth market research is required to understand customer motivations and expectations. Consumers generally assign a position to a company or product relative to the market leader. A product's position is affected by the reputation and image of the company and its other products, and by the activities of its competitors. Perceptual mapping is commonly adopted to visually depict consumer perceptions and prioritizing of brands and their perceived attributes.

Table 53: Process of positioning

<table>
<tr><td rowspan="2">Step 1.</td><td>Analysis of current situation</td></tr>
<tr><td>Analysis of customers (their profile, important factors when they purchase product; how they identify company's products and brands)
Analysis of competitors (their 4P strategies, strengths and weaknesses, their positioning strategies)
Analysis of own business (business goals, resources, strengths and weaknesses, current comparative position)</td></tr>
<tr><td rowspan="2">Step 2.</td><td>Create a positioning map</td></tr>
<tr><td>To determine current position (of own business) and positions of competitors according to important criteria (i.e. price and function of a given product) to determine own position or self-reposition properly based on own advantages such as:
• Product differentiation-quality, design, safety, diversity and wide selection.
• Service differentiation-accompanying services: warranty, repairmen, spare parts, reliability, promptness, accuracy.
• Image differentiation-symbols, slogans, theme songs, colors, events.</td></tr>
<tr><td rowspan="2">Step 3.</td><td>Selecting of positioning strategies</td></tr>
<tr><td>• Based on product's features-price, quality, package, service or certain feature.
• Based on benefits for customers-specific, very unique benefit.</td></tr>
</table>

	• Based on customers themselves-for certain group of customers due to their personal features and specific needs. • Based on comparison-comparing with competitive or substitutive products.
Step 4.	**Implelenting of selected strategy**
	Through action program jointly with marketing mix 4P to create and engrave certain image in the customers' mind in the target market.

Source: Own development

Hereafter are some of the most important mistakes in positioning that must be avoided to guarantee success of the positioning process of products, brands or organizations:

- Over-positioning (generate no or less than enough trust and credibility) or under-positioning (waste of resources).
- Positioning using too many factors/criteria not focusing on the most important ones.
- Inappropriate positioning, leading to indifference and un-mindfulness of customers.
- Incorrect positioning mixing up one factor/criterion, product feature with another.

In marketing, positioning is the process by which marketing attempt to anchor in the minds of target markets for its brand. It was popularized by Al Reis and Jack Trout. The concept is fairly simple. In a crowded world bombarded constantly with product information, it is critical for marketers to create a first impression in the minds of consumers. Hence, there is first mover advantage. The underpinning concept of first mover is the belief that consumers only accept information which is consistent with their prior experiences. The cliché of mind share results in market share seems to be true. Does it mean that late entrants are doomed to failure? Not quite. There are many classic cases when these brands acknowledge the number one and then position themselves accordingly without challenging the market leader head-on. Consumers consciously rank brands in their minds. Lesser known brands therefore locate themselves relative to the market leader. While in the short term, the market leader will not be displaced, the lesser known brand could increase its market share. Renowned examples include Avis versus Hertz; 7-Up versus Coke and Pepsi. It is the positioning that will integrate the marketing mix decisions. In marketing, it may be wise to diversify to a number of segments, in which case, different mix approaches are necessary. By customizing each marketing mix to each segment, the product should more closely satisfy customer needs in each segment. Each differentiated strategy will require its own positioning plan. Undifferentiated strategy uses consistent marketing activities to ensure control and lower marketing costs because of marketing economies of scale. There is only one marketing strategy with a single positioning for all market segments.

Finally, we will answer how the S-T-P process contributes to achieve the marketing purposes set out initially, that are:

Determine current and future requirements for each segment

We realize that customers are heterogeneous and in order to reach them efficiently and with efficacy, these customers can be grouped into smaller, more similar or homogeneous segments. These customers are divided into sub-groups based on standard parameters such as size, similarities in order to identify target groups. Segmentation is appropriate for heterogeneous markets whereby customers have different requirements. Indeed, in completely heterogeneous markets, the only way to satisfy everyone is by offering tailor-made products. In most markets, however, the aggregation of customers into groups with similar product needs and wants is feasible.

Analyze and incorporate requirements into strategic plans

Determine current and future requirements for each segment. By segmenting the market we may gain several advantages. It is possible to achieve a better understanding of customer needs, wants and characteristics, assuming proper research is carried out. On a related point, marketers who are closely in touch with segments can be responsive to slight changes in what target customers want. After segmentation has taken place the firm should decide on its targeting strategy. With the concentration strategy, we direct out marketing efforts towards a single market segment through one marketing mix; or multiple segments via a melting pot of marketing mix. The advantage of this is that it gives the firm an opportunity to analyze carefully the characteristics and needs of a distinct customer group and then focus all efforts into satisfying that group's needs. Also, it enables a firm with rather restricted resources to compete with competitors.

Evaluate and improve process for determining customer requirements

At the moment, we use CRM to log in requirements. The requirements are stated in terms of products. There is very little data on the decision-makers and the organizations such as buying behavior and norms. We are building up a knowledge base of our customers. This will take time and require the entire organization to input the data. The members of our organization are still not sharing information about our customers. Many of them felt that it is not their responsibility to hand over the information. Even though they do hand over data, there is no system to capture the qualitative data. And such data can be difficult to decipher when syntax are considered. Understanding customers makes targeting and positioning easier. Individual customer's needs could be pin-pointed and naturally, strategies could be crafted to meet each of those needs.

- Evaluate and improve customer relationship management process
- Evaluate and improve the process of determining customer satisfaction

Once customer satisfaction level is established on a strategic level as well as on an individual level, one can decode the customers' feedback. One must then interpret qualitative data. Customer satisfaction is determined by asking customers what they feel about us. While this is one way, it does have its flaws. What customers say may not translate into action, meaning while a customer may say he is satisfied; he may not buy our products and services. Testing customer satisfaction is a better tool than a survey. But it must be noted that customer survey is necessary. It is a blunt tool to determine satisfaction. Getting customers to buy is probably sharper tool.

- Use the information to develop and improve strategic plans.

5.2 Global market and international

Marketing

A global company can pursue a strategy of serving world markets from a single country, or source globally to focus on select markets. For example, in an ethnocentric approach, global companies can retain their association with a particular headquarters' country. A global company's response to global market opportunities depends on management's beliefs. Foreign operations or markets are viewed as being secondary or subordinate. There is a widespread assumption that headquarters' knowledge and capabilities can be applied also in other parts of the world. That's why sometimes valuable managerial knowledge and experience in local markets may go unnoticed. In general, the world view of a global companies' strategy, structure and personnel can be described as, beside ethnocentric approach just mentioned, polycentric, regiocentric, and geocentric. These orientations are called the EPRG framework (Keegan, 2002).

- **Ethnocentric orientation:** This is assumption that the home country is superior to the rest of the world. Company personnel see similarities in markets, and assume that products and practices that succeed at home will succeed anywhere. Opportunities outside the home country are largely ignored. This type of company is known as a global company (GC).

- **Polycentric orientation:** This view describes management's belief or assumption that each country in which a company does business is unique. This assumption allows each subsidiary to develop its own unique business and marketing strategies; the term multinational company (MNC) is often used to describe such a structure.
- **Regiocentric orientation:** This view uses a region as the relevant geographic unit; management's goal is to develop an integrated regional strategy. (European company that concentrates on Europe is regiocentric). A regiocentric manager might be said to have a world view on a regional scale. Research suggests that many companies are seeking to strengthen regional competitiveness. This type of structure is referred to as regional company (RC)
- A geocentric orientation views the entire world as a potential market and strives to develop integrated world market strategies. This type of company is known as a transnational company (TNC). The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a world view that sees similarities and differences in markets and countries, and seeks to create a global strategy that is fully responsive to local needs and wants.

In summary, the ethnocentric company is centralized in marketing management, the polycentric company is decentralized in its marketing strategy and activities; the regiocentric and geocentric companies are integrated in its marketing strategy and activities on a regional and global scale respectively.

Table 54: Global marketing context

Global marketing context-trends and challenges	
Non-profit marketing	Interested by central and local government and many non-profit organizations to achieve social and public goals.
Information Technology	IT impacts the way businesses carry out marketing activities: market research; product design, production and distribution; communication with target segments of customers; customer relationship management; the way products are informed and acquired.
Globalization of the world	Geographical and cultural distances are diminished. Businesses are easily reaching out to the world in terms of trading, establishing

economy	joint-ventures, distributing and communicating to target customers worldwide.
Regionalization of the world economy	Rising reverse trend to the process of globalization: anti-globalization, nationalism, populism, trade and own market protection.
Corporate social responsibility and business ethics	Beside economic effectiveness of production and business processes, all of them should pay close attention to the customers', community, society and environment's benefits; simply sustainable development.

Source: Own development

5.2.1 Global market and purchasing behavior

Theodore Levitt's article "The Globalization of Markets" (Levitt 1983) has spawned a host of new references to marketing activities: global marketing, global business, global advertising, global brands, as well as serious discussions of the processes of international marketing. Professor Levitt's premise is that world markets are being driven "toward a converging commonalty." Almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies. He sees substantial market segments with common needs, that is, a high quality, reasonably priced, standardized product. The "global corporation sells the same thing in the same way everywhere". Professor Levitt argues that segmenting international markets on political boundaries and customizing products and marketing strategies for country markets or on national or regional preferences are not cost effective. The company of the future, according to Levitt, will be a global company that views the world as one market to which it sells a global product. Competition in the future will require global marketing rather than international or multinational marketing. Professor Levitt's article has provoked many companies and marketing scholars to re-examine a fundamental idea that has prevailed for decades; that is, products and strategies must be adapted to the cultural needs of each country when marketing internationally. This approach is contrasted with a global orientation suggesting a commonality in marketing needs and thus a standardized product for the entire world. While the need for cultural adaptation exists in many markets and for many products, the influence of mass communications in the world today and its influence on consumer wants and needs cannot be denied. Technology allows instant news and live broadcasts from halfway around the world to be shown to hundreds of millions of potential consumers everywhere in the world. One study of the importance of cultural differences in marketing concluded that in a marketing world characterized by intensive communications, standardization, and the employment of similar technologies, cultural differences tend to diminish. Indeed, the process of globalization on the supply side has already begun. Certainly, the homogenizing effect of mass communications has eliminated many of the regional differences that once existed. It is difficult to deny the influences of mass media and communications on the tastes and consumer behavior. It seems reasonable to believe that people in other cultures exposed to the same influences will react similarly and that there is a converging commonalty of the world's needs and desires. An example is the influencing power of Korean serial dramas. Its impact has been felt in ASEAN and Middle East. Does this mean markets are now global? The answer is yes. There are market segments in most countries with similar demands for the same product. Levi Strauss, Revlon, Toyota, Ford, McDonald's, and Coca-Cola are companies that sell a relatively standardized product throughout the world to market segments seeking the same products to satisfy their needs and desires. Does this mean there is no need to be concerned with cultural differences when marketing in different countries? The answer is "it depends"; for some products adaptation is not necessary, but for other products more sensitive to cultural values, adaptation is still necessary. The issue of modification versus standardization of marketing effort cannot be answered as easily as yes or no. The astute marketer always strives to present products that fulfill the perceived needs and wants of the consumer. Some products successful in one culture are equally acceptable in another; Pepsi-Cola is a good example. Other products demonstrate the vast differences in what is acceptable from one market to another. Chicken wings, and necks and offal would probably need some creative adaptation in Europe. Marketing internationally should entail looking for market segments with similar demands that can be satisfied with the same product, standardizing the components of the marketing mix that can be standardized, and, adapting where there are significant cultural differences that require parts of the marketing mix to be culturally adapted. The question of adaptation versus standardization of products and marketing effort is a dilemma in global marketing. Most problems encountered by the foreign marketer result from the strangeness of the environment within which marketing programs must be implemented. Success hinges, in part, on the ability to assess and adjust properly to the impact of a strange environment. The successful global marketer possesses the best qualities of the sociologist, psychologist, diplomat, lawyer, prophet, and businessperson. It is that a study of foreign marketing environments and their influences on the total marketing process is of primary concern and is the most effective environmental approach to global marketing. It is intended to demonstrate the unique problems of global marketing. It attempts to relate the foreign environment to the marketing process and to illustrate the ways in which the environment can influence the marketing task. Although marketing principles are universally applicable, the environment within which the marketing plan is implemented can change dramatically from country to country.

Consumer market and organization market

This chapter considers the main aspects of consumer and organizational buying behavior and the ways in which marketers should reach these customers. It should be recognized that each consumer and organization is faced with and impacted by different forces. Consequently, it is not possible to develop models, which predict behavior for every single consumer and organization. Therefore, the models discussed in this chapter are put forward in order for marketers to become familiar with the factors that should be considered in putting together the marketing strategy of their organizations.

First of all it is important to establish what constitutes a market. Basically, a market is an aggregate of people who, as individuals and/or organizations, have the need, ability, willingness and authority to purchase products. There are several requirements for a market and an aggregate of people must meet these to be considered a market. They must:

- Want or need the product.
- Have the ability to buy the product.
- Have the willingness to use their buying.
- Have the authority to buy the product.

Consumer market consists of purchasers and individuals in their households who intend to consume or benefit from the purchased products, who do not buy products for the main purpose of making a profit. Alternatively, organizational or industrial markets consist of individuals or groups that purchase a specific kind of product for resale, direct use in producing other products, or use in general daily operations. The four categories of organizational markets, to which we will refer later, are:

Market of producers

Producers markets consist of individuals and organizations that purchase products for the purpose of making a profit by using them to produce other products or using them in their operations. A wide range of industries make up the producer markets, including agriculture, forestry, fisheries, mining, construction, transport, communication and utilities.

Market of resellers

Resellers markets consist of intermediaries that buy finished goods and resell them to make a profit. Resellers do not change the physical characteristics of the product, except for occasional minor alterations. One type of reseller is a *wholesaler*, and these purchase products for resale to retailers, to other wholesalers, to producers and to the government. Alternatively, *retailers* purchase products and resell them to final consumers. When making purchase decisions, resellers consider 04 factors:

- The level of demand to determine quantity and price levels.
- Amount of space required for the product, ease of placing orders.
- Availability of technical assistance and training programs.
- Whether the product complements or competes with products the firm currently handles.

Market of governmental institutions

Governmental markets include national (central) government and local governments. The government spends a vast amount of money on a wide range of goods and services. The types and quantities of products that government markets purchase reflect societal demands on government agencies. Many firms do not try to sell to the government because of the complex buying procedures necessitated by the public accountability, i.e. usually made through bids or negotiated. However, although complex these can be very lucrative.

Market of non-governmental institutions

Institutional markets include churches, libraries, museums, state universities and charitable organizations. Since institutions have different goals and fewer resources than other markets, marketers may use special marketing activities to serve these markets.

Much information about industrial customers is based on the Standard Industrial Classification (SIC) system. SIC uses combinations of letters and numbers to designate economic characteristics of industrial, commercial, financial and service organizations. The Census of Distribution further subdivides SIC categories and provides more detailed information about product classes and product items. Additional data are available for each SIC category through various government and nongovernment publications. The SIC system is a ready-made tool that allows industrial marketers to divide industrial firms into market segments based mainly on the types of products produced or handled. A firm can identify and locate potential customers by using industrial directories. These publications contain information such as name(s), SIC number, address, telephone number and annual sales and lists of potential customers can be developed by area. Since a firm may be unable to pursue every potential customer, segmenting by benefits rather than general customer characteristics may be more productive.

There are several characteristics that distinguish industrial (organizational) demand from consumer demand. The demand for different types of industrial products also varies. First, organizational demand is *derivative* (from other demands). Organizational customers purchase products to be used directly or indirectly in the production of goods and services to satisfy consumers' needs. Therefore, the demand for industrial products derives from the demand for consumer products. *Inelastic* demand is the second factor. For many industrial products, a price increase or decrease will not significantly alter demand for the item. When a sizeable price increase for a component part represents a large proportion of the product's cost, demand may become more elastic. The price increase of the component part causes the price at the consumer level to rise sharply. The inelastic characteristic applies to market or industry demand for the industrial product but not to the demand for an individual supplier. *Joint demand* is the third factor. Joint demand occurs when two or more items are used in combination to produce a product. With joint demand, shortages of one item may jeopardize sales of all the jointly demanded products. The fourth factor is *demand fluctuations*. The demand for industrial products may fluctuate enormously because it is derived from consumer demand. When an organizational marketer's customers change their inventory policy, the firm may notice substantial changes in demand. Significant price increases or decreases can lead to surprising changes in demand in the short run.

Consumer purchasing behavior

Buying behavior is the decision processes and acts of people involved in buying and using products. Consumer buying behavior is the buying behavior of person who purchases products for personal or household use and not for business purposes, whereas the opposite is true for organizational buying. There are four main types of consumer buying behavior:

- Routine response behavior-which involves very little search and decision effort and is mainly, used for products, that are low-priced and bought frequently and quickly.

- Limited decision making-which is used for products purchased occasionally and/or to acquire information about unfamiliar brands in a familiar product category and requires a moderate amount of time.
- Extensive decision making-where buyers use many criteria for evaluating brands and spend more time seeking alternative products and searching for information about the products. Extensive decisions are made by consumers buying expensive products and infrequently purchased lower-priced items.
- Impulse buying-involves no conscious planning but a powerful, persistent urge to buy something immediately.

There are five stages in the consumer buying decision process and the actual act of purchase is only one stage in the process. Not all decision processes, once initiated, lead to an ultimate purchase; the individual may terminate the process at any stage. Of course not all consumer decisions include all five stages. With a deep understanding of the buying cycle, marketing is able to synchronize the appropriate marketing activities.

Problem recognition: The first stage is problem recognition and this stage occurs when a buyer becomes aware of a difference between a desired state and an actual condition. The individual may be unaware of the problem or need and marketers may use sales personnel, advertising and packaging to aid recognition, the speed of which can be slow or fast.

Information search: The second stage is the information search which begins after the consumer becomes aware of the problem or need. The search for information about products will help resolve the problem or satisfy the need. There are two aspects of an information search: internal search and external search. In the internal search, buyers search their memories for information about products that might solve the problem, and then an external search is made if they cannot retrieve enough information from their memories for a decision. When successful, an information search yields an evoked set of products or a group of brands that the buyer views as possible alternatives.

Alternatives evaluation: The next, third stage is an evaluation of alternatives. In this stage, the consumer establishes a set of criteria against which to compare the characteristics of the products in the evoked set. The consumer rates and eventually ranks the brands in the evoked set using the criteria and their relative importance. Marketers can influence consumers' evaluation by framing the alternatives through describing alternatives and attributes.

Purchase: This allows consumers to move on to the fourth purchase stage whereby the consumer selects the product or brand to be purchased. Such things as product availability, seller choice and terms of sale may influence the final product selection.

Post purchase evaluation: The final stage is known as post-purchase evaluation in which the buyer begins to evaluate the product after purchase, based on many of the criteria used in the evaluation of alternatives stage. Cognitive dissonance is dissatisfaction that occurs when the buyer questions whether he or she should have purchased the product at all or purchased a different brand. This occurs especially after high value purchases.

Factors affecting consumer buying decision process

Motives: Motives also play a major part in consumer behavior. A motive is an internal energizing force that orients peoples' behavior towards their individual goals and a buyer's actions at any time are affected not by just one motive but by a set of motives, some stronger than others. These affect the direction and intensity of behavior.

Ability, learning and knowledge: Ability, learning and knowledge are also important considerations. Ability refers to an individual's competency and efficiency in performing tasks. Learning is a change in an individual's behavior that is caused by information and experience, and the learning process is strongly influenced by the effects of an individual's behavior. Customers learn about products directly by experiencing them or indirectly through information from salespersons, friends, relatives and advertisements. Knowledge consists of two components: familiarity with the product and the individual's ability to apply the product.

Attitudes: Attitudes should also be considered. Attitudes refer to knowledge and positive or negative feelings about an object or activity. They are learned through experience and interaction with other people and can be changed. Customers' attitudes towards a firm and its products strongly influence the success or failure of the organization’s marketing strategy. Marketers use several approaches to measure consumer attitudes towards dimensions such as prices, package designs, brand names, advertisements, salespeople, repair services, store locations and features of existing or proposed products. They can include:

- Direct questioning of consumers
- Projective techniques
- Attitude scales, which measure intensity of feelings towards an object.

Changing people's negative attitudes is generally a long, expensive and difficult task.

Personality: Personality is another major factor for marketers to be aware of. This is all the internal traits and behaviors that make a person unique. The uniqueness of one’s personality arises from family background and experiences. When promotion focuses on certain types of personalities, the advertiser uses personality characteristics that are valued positively.

Personal factors: We should now consider a range of personal factors influencing the buying derision process, and here we mean that a personal factor is one that is unique to a particular individual. Demographic factors involve individual characteristics such as age, race, sex, and income and can influence who is involved in family decision-making and one’s behavior. It can influence the extent to which a person uses products in a specific product category. Situational factors include external circumstances or conditions that exist when a consumer is making a purchase decision and these influence a consumer's actions in any stage of the buying process such as time pressures, product scarcity and weather. Another factor is the level of involvement, for example the importance and intensity of interest in a product in a particular situation. A low involvement results when buyers form an attitude about a product and evaluate its features after purchasing it. Alternatively, high involvement buyers spend much time and effort researching their purchase beforehand. Situational involvement results from the particular circumstance or environment in which buyers find them.

Psychological factors: Further important considerations are psychological factors influencing the buying decision making process. We can first look at *perception*, which is the process of selecting, organizing and interpreting information inputs to produce meaning. Since an individual selects some pieces of information and ignores others, only a small number of information inputs are selected to reach one’s awareness because one cannot be conscious of all inputs at any one time – a phenomenon called *selective exposure*. Input is more likely to reach the person's awareness if it relates to an anticipated event. Also, a person is likely to let an input reach consciousness if the information helps satisfy current needs. Marketers have realized that if the intensity of an input changes significantly, it is more likely to reach awareness. The selective nature of perception also results in selective distortion and selective retention. *Selective distortion* is changing or adjusting currently received information. *Selective retention* occurs when people remember information inputs that support their feelings and beliefs and forget inputs that do not. A person's self-perception, or self-concept, may affect purchase decisions and consumption behavior. Marketers try to influence consumers' perceptions but sometimes fail. For example, a consumer's perceptual process may operate in such a way that a seller's information never reaches the consumer's awareness. Also, a buyer may receive a seller's information and perceive it differently from what the marketer intended. When buyers perceive information inputs that are inconsistent with prior beliefs, they are likely to forget the information quickly.

Social factors: Social factors influencing the buyer's decision process include a number of factors, the first of which are roles and family influences. A role is a set of actions and activities that an individual in a particular position is supposed to perform based on the expectations of both the individual and surrounding persons. Each individual has many roles. An individual's roles, particularly family roles, influence that person's behavior as a buyer to some extent. Reference groups also have an impact on buyer behavior. A reference group is a group with which an individual identifies so strongly that he or she takes on many of the group members' values, attitudes or behaviors. Families, school cliques, church groups and professional groups are examples of reference groups. A reference group is a point of comparison and a source of information for an individual. The extent to which a reference group influences a purchasing decision depends on the individual's susceptibility to reference-group influence and strength of involvement with the group. Reference group influence may affect the product derision, the brand decision, or both. A marketer sometimes uses reference group influence in advertisements to promote the message that leads people in a specific group to buy the product and be highly satisfied with it. Social classes are also important, however, this depends on the extent to which class systems operate within particular cultures; this is more prevalent in some countries than others. Social classes are often aggregates of people with similar social ranking. The criteria used to group people into classes vary from one society to another. In different societies, people are grouped according to many factors, including occupation, education, income, wealth, religion, race, ethnic group and possessions. Individuals within social classes develop common patterns of behavior. Since social class affects so many aspects of a person's life, it also influences to some extent the type, quality and quantity of products purchased. Marketers commonly divide consumers into different categories, but they should remember that there is considerable diversity within each status group.

Cultural factors: Culture and subculture are further important factors to consider. Culture is everything in our surroundings that is made by human beings and includes tangible items such as food, clothing, furniture, buildings and tools and intangible concepts such as education, welfare and laws. Furthermore, it includes the values and a broad range of behaviors accepted by a specific society. The concepts, values and behavior that make up a culture are learned and passed from one generation to the next. Since culture influences widely affect the ways in which people buy and use products, culture affects the development, promotion, distribution and pricing of products. International marketers must take into account the cultural difference of other regions of the world. Indeed, if you are employed in this function within an organization you will no doubt be able to think of many examples. Subcultures are cultural divisions based on geographic regions or human factors, such as age or ethnic background and may be characterized by considerable variations in purchasing behavior.

Organization purchasing behavior

We will now look at some different dimensions of organizational buying behavior. Organizational transactions tend to be *much larger* than consumer transactions and suppliers often must sell their products in large quantities to make profits. Generally, organizational *sales are negotiated less frequently* than consumer sales and some items, such as capital equipment, are used for a number of years. Other industrial products, such as raw materials, are used continuously in production. Several people or departments within the purchasing organization may be *involved in the transaction*. Industrial buyers are generally considered different from purchasers of consumer products because they are well informed about the products they purchase or seek additional information before buying. They do not seek psychological satisfaction accompanying organizational advancement and financial rewards. Those who consistently exhibit *rational organizational buying behavior* are likely to attain personal goals because they are performing their jobs in ways that help their firms achieve organizational objectives.

So let us look at the *primary concerns* of organizational buyers. The first of these is the level of *product quality*. A product must meet specifications so that its use will not result in malfunction for the ultimate consumer. Obtaining a product that meets but does not exceed specifications is important to avoid excess costs. The second is *services*. The services suppliers provide may be the primary element that differentiates one product offering from another. Often the mix of services is likely to be the major way by which an organizational marketer can gain a competitive advantage and includes such things as: market information; technical product information; data regarding demand; information about economic conditions, supply and delivery information; maintaining an inventory; on-time delivery; repair services and replacement pans; credit. The third factor is of course the *price* since this influences operating costs and costs of goods sold, thus affecting the selling price and profit margin.

In terms of *types of organizational purchase*, we have new-task purchase, modified rebuy and straight rebuy purchase. In a *new-task purchase*, the organization makes an initial purchase of an item to be used to perform a new job or to solve a new problem. In a *modified re-buy*, a new-task purchase is changed the second or third time it is purchased, or the requirements associated with a *straight re-buy purchase* are modified. A straight re-buy occurs when the buyer purchases the same products routinely under approximately the same terms of sale.

Organizational (or industrial) buying behavior refers to the purchasing behavior of producers, resellers, government units and institutions. The *buying center* consists of individuals who are involved in making organizational purchasing decisions and includes users, influences, buyers, deciders and gate-keepers.:

- Users are organizational participants who actually use the product being acquired.
- Influencers often are technical personnel who help develop the specifications and evaluate alternative products for possible use.
- Buyers select the suppliers and actually negotiate the terms of the purchases.
- Deciders actually choose the products and vendors.
- Gatekeepers control the flow of information to and among persons who occupy the other roles in the buying center.

The number and structure of an organization's buying centers are affected by the organization's size, its market position, the volume and types of products purchased, and the firm's managerial philosophy. In some cases it is clearly seen that these roles can overlap. There are several stages of the organizational buying decision process:

- First stage-one or more individuals in the organization *recognize* that a problem or need exists
- Second stage-the development of *product specifications* requires the organizational participants to assess the problem or need and determine what will be necessary to resolve or satisfy it.

- Third stage-involves *searching* for possible products to solve the problem and locating suppliers of such products.
- Fourth stage-the products on the list of several *alternative* products and suppliers generated in the search stage are evaluated to determine which ones (if any) meet the product specifications.
- Fifth stage-product to be *purchased* and its supplier are chosen, and the product is actually ordered.
- Sixth stage-the product and supplier's performances are *evaluated.*

Just like consumer buying behavior, organizational buying behavior is influenced by several factors: First, *environmental factors,* i.e. uncontrollable forces such as laws, regulatory actions and guidelines. Second, *organizational factors* will include the buying organization’s objectives, purchasing policy and resources as well as the size and composition of the buying center. Third, *interpersonal factors,* these refer to the relationships among people in the buying center. Finally, *individual factors***,** these are the personal characteristics of individuals in the buying center, such as age, educational level, income and position in the organization.

5.2.2 International service marketing

As a next stage of the marketing concepts development to support expanding business around the world, competition in the future will require focusing and implementation the concept of global marketing concept, rather than still paying attention to the previous, successively developed but outdated marketing concepts:

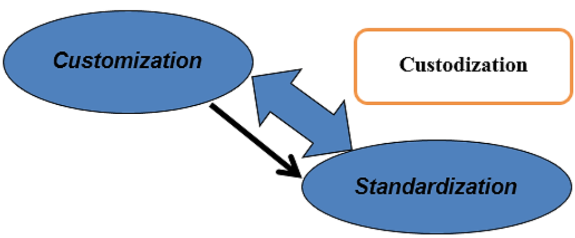
- Export marketing-that are marketing activities that support foreign market penetration of a given domestic company in the burgeoning stage of globalization
- Marketing in foreign market-that are marketing activities that support a given company, which has been already penetrated the foreign market, to compete effectively there with foreign and local companies
- Multinational marketing-that are diversified marketing activities operating in many different countries where a given company is present simultaneously in many foreign market fronts
- International marketing-that are diversified marketing activities across many countries, where a given company has its operations and those marketing activities should be coordinated in order to achieve better effect.

- Global marketing-in general there is one consistent pattern of marketing activities for one global market considered as more or less homogenous regardless of geographical and cultural dispersions.

International marketing issues and practices

Global marketing requires marketers to behave in a way that is global and local at the same time by responding to similarities and differences in world markets (Keegan 2002, p6). The world is rapidly becoming a one-world economic and market system. Today most business activities are global in their scope. Finance, technology, research, capital and investment flows, production facilities, marketing and distribution networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic network environment, and all business people must be aware of the effects of these trends when managing a multinational company (MNC) or a domestic company that exports. A company guided by this orientation or philosophy is generally referred to as a global company, its marketing activity is global marketing, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market, that is, the same country market set throughout the world. Important to the global marketing concept is the premise that world markets are being driven toward a converging commonalty seeking in much the same ways to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same product over the world. With this orientation a company attempts to standardize as much of its effort on a world-wide basis. Some decisions are viewed as applicable world-wide, while others require consideration of local influences. The world as a whole is viewed as one market and the firm develops a global marketing strategy. The global marketing company would fit the regiocentric or geocentric classifications of the EPRG schema, as discussed in the previously. Some early interpretations of global marketing focused narrowly on the standardization or globalization of product branding and advertising, and the concept of global marketing as an operating orientation was accepted or rejected on the basis of whether or not a global market existed. Reports abound of global marketing successes and failures. The notion of global marketing is a more powerful idea if the scope of the concept is broadened beyond the idea of the existence of global markets. The global marketing concept views an entire group of national markets as a unit, examining the group as one market and developing a marketing plan that strives for standardization wherever it is cost and culturally effective. This might mean a company's global marketing plan has a standardized product but country specific advertising or a standardized theme in all countries with country or cultural specific appeals to a unique market characteristic, a standardized brand or image but adapted products to meet specific country needs, and so on. In other words, the marketing planning and marketing mix are approached from a global perspective and where feasible in the marketing mix, efficiencies of standardization are sought. Wherever cultural uniqueness dictates the need for adaptation of the product, its image, and so on, it is accommodated. We must acknowledge at least two dimensions to the question of global business. One side focuses on orientation of firms as just discussed, the other dimension of the question of global business is whether a global market exists as defined by Levitt. In other words, do segments across several countries with similar needs and wants that can be satisfied with a single standardized product exist? Although a company might visualize the world as a single market rather than as a series of country specific markets, to what extent the world has actually become a homogeneous market, (that is, a global market) is another question. These two dimensions of globalization should be separated. Regardless of the degree to which global markets exist, a company can benefit from a global orientation.

Illustration 92: Customization versus standardization



Source: Own development

Table 55: Customization versus standardization

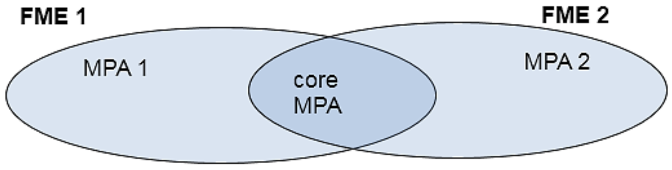
Standardization	Customization	Custodization (Standardization+ Customization)
Global business strategy	**Multi-domestic business strategy**	**Home copy business strategy**
Same standardized marketing mix for all foreign markets (Coca Cola,	Customized, fully responsive to the changing demands, tastes and preferences (FMCG and	Domestic marketing shows no difference to international marketing. Avoid high cost, depending on types of products (con-

McDonald's)	global supermarket chain)	struction and production material)
Saving cost, time and efforts, easy to be implemented	More cost, time and efforts needed to implement this strategy	
Appropriate for truly global products and services	To explore locally different taste and specific preference, choosy and unfamiliar customers	
Not suitable for local products with local conditions and specificities	Not suitable and reasonable for standardized and global products without local specificities	
Total success or total failure	Reduce risk but success is never being fully secured	

Source: Own development

Moreover, global marketing managers, due to erratically changeable global business context, should be flexible enough to apply the environmental approach to marketing, which consists in carefully analysis and diagnosis each foreign market environment (FME) individually, and adjust their company's marketing plans and activities (MPA) adequately to the diverse and unpredictable impacts of foreign business contexts.

Illustration 93: Environmental approach to global marketing



FME: Foreign market environment
MPA: Marketing plan activities
Source: Own development

After presenting about global marketing issues, it is worthwhile to briefly consider some of the practical aspects and essential practices executed in global marketing.

Focus on familiar concepts, brands: There are too many marketing concepts, philosophies, orientations, approaches, brands, partnerships, opportunities across countries, beyond political and geographical boundaries and throughout many different cultures in the global world we all understand certain topics. A firm should beware and take a selective approach to all of them. A firm should devote more time to study carefully to be familiar with them to the extent as detailed as possible. The rule is to trust and refer to the most familiar and the most comprehensible of them.

Choose overseas partners carefully: Always take a closer and careful look at any given field of cooperation and scrutiny potential partners before jumping in joint projects. You need to understand where partners sit legally and financially, and strategically and be realistic about their potential in terms of but not only the market influence, and on how they are perceived by customers, partners, and other stakeholders in their companies and in the society in general before any step forward to be made.

Don't make when you can buy: This rule is concerning the strategy of outsourcing. It means that a firm doesn't have to engage in all stage of production or delivering service. Instead, it should focus on what it can do best in the value chain and find out partners and let them do the rest for you within their competencies. This is the best way to optimize costs and develop specific competencies to stay competitive in the global market and global value chain. The another point here is that a firm should not only engage other partners into its own business but also be engaged in business of others, as partner, globally, to acquire more experience to indirectly contribute to its own global competitiveness.

Localize your product or service: To ensure that your technology is capable of being adapted to produce products and deliver services best suitable in various markets. Be familiar with and understand comprehensibly the local culture, traditions and customs to readjust, redesign or even to remake own products and services to fit the local tastes and likings reducing to minimum cultural contention and misunderstanding.

Invest in each territory separately: Take the time to devote money and efforts to plan and execute a proper individualized marketing and market research, PR and distribution campaign in each of, if not solely your biggest, overseas markets. Tailor each country's particular brand message separately as well.

Treat subsidiaries, partners with mutual respect: Free exchange of help and information is crucial when operating on a global scale. Appoint key, motivated, trustworthy decision-makers to oversee such partnerships in different operations and develop such international relations.

Manage expectations: Success in one territory (country, region) does not automatically guarantee victory in another arena either, this is immutable truth and absolute principle.

Service marketing mix

Knowing about the strategies in marketing, it is time to implement marketing per se, to achieve this, it is important to understand each of elements of the marketing mix so that the plan can be executed to fulfill the marketing objective. According to Kotler, marketing mix can be broken down into 4 major categories and they are the product, price, place and promotion. However this is applicable only to the marketing of pure products. Pure products are tangible products that can be physically touched and more importantly, that customers can claim ownership of the products after purchase. Examples of these products are rice, paper and a whole lot of other physical products. In addition to the marketing of pure products, there is also the marketing of services where they are intangible and customers who make purchases will end up with no tangible product.

Unlike pure products, services have 4 major characteristics that make it difficult for marketers to market. These 4 major characteristics are:

Intangibility: This characteristic of service refers to the intangible form of service that is being purchased and consumed. Different from physical product where the marketer can show, demonstrate or even allow the customer to sample the product prior to a purchase, service is impossible to do so. Moreover, buyers will not own any physical product after purchase, so it becomes impossible to show the customers the physical form of their purchase. This complicates the marketing process and makes it more difficult to convince the customer to buy. An example of this is the service provided by the cinema operators, customers who make purchases, will only acquire the experience of watching and listening to the movie in a pleasant environment, they will not be taking or owning anything by the time the movie ended. Another example is that of the freight forwarding service and in this case, the customer pay for the service of moving their property from one destination to another and again similar to that of the movie, the customer do not physically purchase or own anything after the purchase. Without tangibility, it creates much difficulty in persuading customers to make the purchase, as there is nothing for the customer to sample. To counter this difficulty, physical evidence of the service is introduced and this will be discussed as an additional P, which stands for physical evidence in the marketing mix.

Perishability: This refers to the inability to store service for future purchase. As for physical product, marketers can forecast demand and produce in preparation for the demand. As demand is difficult to predict, excess stock can always be kept in preparation. In a situation where demand is high, stock can be drawn to satisfy the demand and when demand is low, the product can still be kept in stock. This will minimize the chance of the marketer missing out on the chance of selling its product to the market. However, for the marketing of services, it is impossible to do so. Services produced by the service provider, when not consumed, it cannot be stored and as a result, it will perish with the marketers losing the chance of marketing it. For example, for the hotel service, the rooms that are left vacant for the night will be sales lost as a result of perishability. Nights that the rooms are left vacant cannot be kept or stored for future sales. Another example can be that of the warehousing business. Days that the warehouse is unoccupied, cannot be retrieved to be sold at a later date, the opportunity to sell the space for that day simply perish, thus incurring a loss to the business. To counter this, organizations may consider reducing the quantity of service provided, for example, reducing the number of hairstylists or reducing the number of rooms for rental. However, when demand increases, marketers will lose the opportunity of marketing its services to the customers and as a result, the excess customers who cannot be served by the marketers, will look for alternative, thus turning mostly to the competitors. To resolve this issue of perishability, marketers use demand management technique to attempt to even out the demand so that it can be constant. If the demand is kept constant, it will ensure that the service providers are kept busy at all time, i.e. full occupancy, while being able to serve all its customers, and not allow them the opportunity to turn to the competitors. Marketers achieve this by encouraging demand in off-peak hours through discount pricing. Using this technique, marketers can attract customers to purchase the service in off-peak hours, increasing occupancy and reducing loss. Another advantage of this is that customers, who have purchased and consumed the service during off-peak hours, will not go back to the service provider, and this create vacancy during normal hours for the rest of the customers to purchase. Cinema operators and telephone service providers are common users of this technique to ensure full occupancy of its services.

Variability: This is made reference to the variation of a service. For physical products, it is possible to control almost all aspects of quality to ensure consistency in the product sold. Because the product is produced in a factory environment, proper quality management can be used to control the consistency of its offerings; however, for service it is almost impossible to do so. Firstly, there will always be variation between one service and another as it is impossible to control them to be exactly the same and this is caused by many factors, e.g. the environment in which the service is consumed, the mood of the service provider, the facial expression of the service provider, etc. Another reason is that customer expectation changes and varies with some customers having higher expectations while some do not. This gives rise to the requirement of the next additional mix and that is process and this will be discussed later.

Inseparability: For customers of pure products, they will purchase the products from the marketers, wholesalers or distributors and there is no contact between the producer of the product and the customers. However, for the purchase and consumption of service, customers inevitably come into contact with the service providers in order to consume the service, and this increase the need for professionalism when dealing with customers. In the provision of medical service, the doctors and nurses are the contact persons that customers come into contact with hence it is crucial that these service providers are trained sufficiently to manage the customers. Even a mere driver of a transportation company cannot avoid this training as they are the ones that come into contact with the customers and if the customers, in the process, felt that they are not duly served, they will still complain and probably go to a competitor for their future requirements. This characteristic of service has increase the need to look into the practice of human resource in an organization, i.e. people and this will be discussed as the final addition in the marketing mix.

After discussing the 4 characteristics of services, the next thing is to focus on the marketing mix and as mentioned earlier, they are the 4 marketing mix elements of product, with the addition of 3 extra elements to tackle the complexity of the marketing of services. In all, they are the 7 elements of marketing mix of services or more simply denoted as the 7Ps of marketing.

These 7 Ps are:

- Product
- Price
- Place
- Promotion
- Physical evidence
- Process
- People

Product

In the consideration of product, it is important to understand the concept of product planning. This is because new products or services are constantly introduced while obsolete products or services are regularly eliminated from the marketplace. Marketers need to plan and consistently assess the relevance of its offerings so as to remain competitive in the market. One of the attributes of products is the product life cycle.

Table 56: Product characteristics

Product structure	Basic elements-functionality, design, color Package-brand, usage instruction Service-warranty, installation, spare parts, support service
Product renewal	Concerning all three mentioned components in the product structure Moving toward standardization or customization Moving to another market, customers group Moving to consumer/organization market Finding new application or using in combination of other products
Development new product	Collecting ideas-all round market and intermediary investigation Verifying ideas-selecting best ideas based on specific criteria Business analysis-determining product's commercial feasibility Product testing-verify credibility, safety, functionality, quality parameters Market testing-trial limited market commercialization Commercialization-full market commercialization
Product standardization	Applied to organization (industrial) market Global products being symbol of economic integration and penetrating global market
Product customization	Applied to consumer, end-customer market Local products being symbol of socio-economic regionalization and need to be adapted willingly or unwillingly to penetrate local specific market
Product "custodization"	A combination of both mentioned trends: Standardization-to reduce costs, retain image recognition Customization-to get on with local tastes, preferences, customs and practices
Package	To protect, inform about and propagate the product, its functionalities and benefits To attract customers and differ from other competitors Impact by local culture and stipulated laws Standardization strategy-reducing cost and consistency in brand recognition Customization strategy-for diversification purposes Recycling as positive approach toward Corporate Social responsibility
Product positioning	To impress customers and retain those impressions in their mind. Product positioning may be based on:

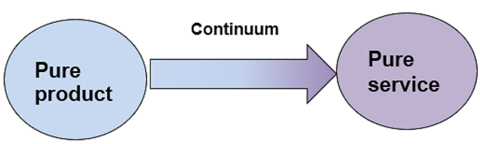
	• Product attribute • Product benefit • Product usage and functionality • Quality and price • Customers structure and profile • Comparison with competitors

Source: Own development

A common model marketers used for this purpose is the Product Life Cycle or PLC for short. According to the model, the life of a product is just like that of a human and will go through 4 stages in its cycle, i.e. from the birth or introduction of a new product to the death or obsolesce of a product after it matures through a period of time. The model identifies 4 stages and the different strategies suited for each stage of the life cycle. Using this model, marketers can plan its strategies by monitoring the life of its products and launch new products so that they can remain relevant in the market by continuing marketing valued products to the market. The 4 stages of a life cycle are introduction, growth, maturity and decline, each requiring marketers to implement different strategies to maximize its effectiveness in its marketing activities. This has been discussed in the previous section.

In this classification of product, it is sometimes difficult to distinguish between product and service. Most products sold nowadays invariably come with some level of service while the marketing of service is supported by kind of physical products, therefore, it is always a mix of either, with the support from the other. It is almost impossible to find pure products or pure services, in fact, product and service lies on a continuum with varying degree of dependency on one another as illustrated below.

Illustration 94: Product-service continuum

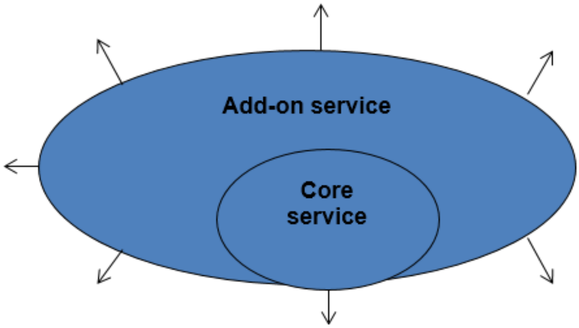


Source: Own development

Although in the marketing of services, the focus is on service, sufficient attention should still be given to product as it plays the role of complementing the service to be marketed. For example in the marketing of transport service, though the trucks will not be purchased and owned by the customer but by the service provider, it will provide an impression of the level of service to be expected from the service provider. By assessing the condition and the quality of the truck, customers can assume the service level extended to them. of course, this product cannot accurately characterize and assure the service level, but customers will still make judgments through them, hence it is important that the complementing product must be in a condition to reflect the level of service so as not to increase or lower the expectation of the customer. In line with globalization, some products may need to be modified to suit the application and regulation of the different countries that the service may be provided in.

Services, just like product, can be segmented according to the needs of the customers. In different markets, the same organization can offer different level or types of services. For example, Singtel[2] not only offer fixed line telephone service, it also offer mobile phone line services, broadband services, paging services and a whole lot of other services. Depending on the needs of the customers and the competition in the industry, services can be streamlined to provide only the core service, making it competitive and in situations where customers request for more services, add-on packages can be included to complement the core service. For example, a courier company can provide only courier services, however, when customers request for packing services or even warehousing services, this can be added upon the customer request. Marketers must be updated about the changes in the market and related to customers; they must always be experimenting and testing for new services to be offered, especially in this competitive global environment. Competitive reaction is also one of the reasons where competitors offer new services that are proven to be popular with the market.

Illustration 95: Service model



Source: Own development

In service marketing, besides considering the type of service, there is also the issue of branding. Branding is important to marketers, as it is the key

[2] Singapore Telecommunication

element in helping marketers in communicating its relative position in the market, i.e. the application of the positioning strategy. As businesses expand into global markets, brand names are also extended into overseas market. Organizations need to decide if it wants to use the same brand for both domestic and overseas markets. To achieve its goal, it must first understand the implications of both options. Using the same brand name will incur lesser cost in advertising as the same advertisements may be used over different parts of the world, resulting in lesser production cost of the advertisement. Another advantage is the familiarity it provides for travelers that are entering into different countries. Seeing a familiar name in a foreign environment will induce a sense of security especially if the customer has used and is comfortable with the products under the same brand. Products with the same brand name will appeal to them and this will increase the chance of purchase over other unfamiliar brands. Conversely, having the same brand name has its disadvantages too. Firstly, if the brand name is affected with bad publicity in the local market, the effect will also be carried into the overseas market, affecting the sales there. Another disadvantage is that if there are radical differences between the products or services offered in the different countries, different brand names may be required to reflect the different offerings. Finally, due to the reason of market segmentation, different brand names are used to illustrate the positions of its different offerings in the different market segments. Hoteliers use this strategy when they are competing in different segments of the hotel industry.

Table 57: Same brand name advantages and disadvantages

Advantages of the same brand name	Disadvantages of the same brand name
Lesser cost in advertising	Bad publicity in the local market will resonate overseas
Familiarity, increase the chance of purchase	Inability to reflect the different offerings
	Inability to serve different segments of the market

Source: Own development

After understanding the choices of branding, the final consideration is the choosing of a good brand name. Brand name, like logo, is a symbolic representation of the organization, product or service and it will provide a first impression to the market of what to expect of the organization or the brand. As a result, brand name must be chosen to reflect the image the organization wishes to project. There are a few guidelines that organizations may want to consider in choosing the brand name and they are:

- Distinctive-Something unique as compared to others and this will help customers in remembering the brand name, e.g. Carrefour.
- Suggest something about the product or service-The brand will prompt the kind of offerings marketed by the organization, e.g. Pizza Hut, United Parcel Service.
- Easy to pronounce, spell and remember-Being easy to pronounce and remember, customers' retention of the brand name can be extended, e.g. Sony.
- Capable of registration and legal protection-By being able to register and protect its brand name, organizations is protecting itself against piracy and counterfeiting.
- In service marketing, branding is everything since there is no tangible product to reflect the offering; hence, marketers need to commit considerable effort in building its brand name, to assist in the marketing of its services.

Price

Price is a key determinant of profitability and this affect the economic condition of the organization. In most situations, organizations want to sell its offerings at the maximum possible price so as to maximize profits. However, it is almost impossible to determine where the maximum possible price is. Pricing is affected by many factors, e.g. cost of raw material, demand for the offering, competitors and their pricing, pricing of substitute offering, customers' perception of the brand, economies of scale, etc. It is extremely complicated to correlate these factors, and worst of all, these factors are dynamic and impossible to track instantaneously.

Table 58: Pricing strategy characteristics

Price in combination of remaining elements of marketing mix	Price should be reasonable for consumers, corresponding to the values they get; profitable for the sellers and/or producers (to cover the cost of production and other cost of marketing in different locales globally) in short and long run in different foreign markets Price should be flexible in regard to different groups of customers, marketplaces, specific moments of transaction
Factors impacting price	**Internal factors:** Cost of production, transport, storage, business policy and marketing objectives **External factors:** Market demands, competition, policy and laws (including tax and tariff)
Price and international business	Business policy and strategy are strictly associated with: • Sale turn-over • Market share

policy	• Profit • Risk aversion • Market penetration • Dealing with competition • Stop loss and withdrawing from market • Brand image building and investment • Currency preference • Trading conditions (delivery, payment, warranty and return) • Economic conjuncture

Source: Own development

Nevertheless, marketers must determine the price so that it does not confuse the customer and there are various techniques that can be used. One of them is the *value added pricing* where marketers first find out how much the customers are willing to pay for each of the function or value that comes with the function, and then add all of them together to result in the final price where the offering will offer all the functions in a total package. Another technique is known as the *competitive pricing*. The setting of price is based on its relative position against the biggest competitor where marketers will price its products to be either lower or higher than an established competitor, communicating to the market its position against the said competitor. This is a commonly used technique mainly because of its simplicity. Lastly, due to differences in the factors affecting pricing, prices can vary with geographical areas. For the same service or product, price can be different in two different places.

Finally, price is the most common consideration in the customer's evaluation of a product. Hence this usually leads to a price war where competition will drive down the price of every supplier, benefiting not the marketers but the customers. To avoid this, two common strategies can be employed. The first strategy is through a breakdown of the price of the product, i.e. pricing the product with just its *core function* and charging the extra functions at a separate price. Car manufacturers regularly use this strategy to compete. The second strategy is through a *bundling strategy* and this involves the product to be bundled with other products so that profits can be manipulated and hidden in the different products, without stating the actual price of each product. This process will make it tougher for competitors to guess the profit made on each product. Computer manufacturers and even service providers like slimming centers and tour operators regularly use this strategy.

In the marketing of new products or entering into new market, price is usually set without any basis for comparison because there is nothing to compare with. Marketers can use either one of the 2 market-entry pricing strategies that are commonly used.

Market skimming strategy-where the price is set high in the beginning stage or the introduction of the new product. As time goes on, this price is gradually decreased until it stagnates when competition becomes widespread. Using this technique, marketers can aim to maximize its profit from each of the different level of the market before it advances to the next lower level. This strategy allows marketers to recoup its development and production costs very quickly when the new product is launched. A weakness of this strategy is that it is prone to competitor’s reaction. Due to the high price it set, competitors will interpret it as a profitable product and will try to produce a similar product, so as to compete for a slice of the market share. Because of this weakness, the strategy is applied only to markets where competitors find it difficult to enter, either due to technological advancement or protected by other means such as government licensing. Mobile phones manufacturers like Nokia or Sony Ericsson are always using this strategy when they launch the new models of their phones.

Penetration strategy-in situations where competitors are perceived to be able to react quickly to the new product or market, this strategy is used. Using this strategy, marketers price their product at a low price when it launches it product, doing so, it will help them to sell a huge quantity into the market allowing them to gain a large market share. Even when competitors enter the market, there is only a small group of customers left to compete for, making it unattractive for them to enter the market. This is especially critical if the market is small, resulting in competitors being unable to achieve its economies of scale, hence incurring a higher cost in the production of its products.

Place

This refers to the distribution of the product or service, making it accessible to potential customers, i.e. convenient for customers to access, however that does not mean that the location for all services must be geographically widespread. This is because certain types of services are meant to locate only in exclusive places where only a small but privileged group of customers will make the effort to travel to the place for purchase. The location usually provide an idea of the level of service rendered, for example, types of food service varies with the places where they are located, whether they are in shopping centers or neighborhood shops. In general, for marketers accessing to the general public, it is common that they should locate their offerings to be near as possible to their customers, this will increase the chance of purchase as they are conveniently available as and when the customer needs it. In the global market of services, marketers must track the development of new markets all around the world, as developing markets are markets with great opportunities and the requirement of services tends to increase as the market develop. In China where the biggest growing economy is, service providers are keen in tapping the potential of this market and some start as early in the 1980s even before China enter into the World Trade Organization. An example is that of 'K' Line Air Service where they had set up their representative offices in Shanghai, Guangzhou and Shenzhen as far back as 1992.

Table 59: Placement characteristics

International placement	More complex, long lasting and troublesome due to: • Lack of market practices knowledge • Political, geographical, cultural and language factors • Trading barriers • Incompatibility of distribution systems and their operations • Impact positively or negatively depending on management capacity and state macro-policy
International placement system (channel)	Intermediaries: • Producers • Export brokers • Import brokers • Wholesale distributors • Retail distributors • End-customers (consumers) Domestic distributors: Export Management Company; foreign customers; Export brokers; Export wholesalers; Export agencies; Direct exporters Foreign distributors: Foreign export sale representatives; Foreign wholesale stores; Export subsidiaries; Redistributors; Export services performers
Length of distribution channel	Long channel: • Convenient shopping; better brand recognition • Increased cost and price; quality not guaranteed • hort channel: • Reduce intermediary cost; customer may buy and complain directly • Monopolistic position of producers
International distribution management	Promotion: conference, exhibition, international fair, commission mechanism and diverse forms of cooperation, training, supportive services, contact and coordination (relationship management and sustenance) Control and empowerment
International	Difference between consumption and industrial products distribution

market penetration	Forms of penetration: • Foreign companies under our own brand • Foreign companies under their own brand • Alliance between MNC and local enterprises to produce, export and distribute goods and services • Buy back distribution system • Building anew (greenfield) distribution system

Source: Own development

Promotion

Promotion is sending messages, delivering information to lead market needs of consumers and distributors so as to impact their own purchasing decisions through developing active buying attitude, changing consumers' thoughts and behaviors in a beneficial ways for the company. International promotion is a promotion activity in a multicultural, multilingual, multi-religious environment, with much more diverse and complex consumers' attitudes, minds and behaviors. This is probably the most critical factor of marketing as it plays the role of communicating to the market about the offerings. Communication will provide the perception of the offering and this will define the expectation of the customers. Doing so, customers will know exactly what each company or brand is offering, and will increase shoppers' efficiency in their purchases. Marketers can also position themselves in the specified segment and avoid unnecessary competition. To achieve the objective of communication, an integrated approach of using five different communication tools is used. The tools of promotion, referred to as promotion mix, are:

- Advertising
- Personal selling
- Sales promotion
- Direct marketing
- Public relation

These tools, with each of their strengths and weaknesses, are used at different times or situations, sometimes with just a single tool and others in combination, to deliver the intended message. The choice of tools is dependent on the objective of the promotion.

Table 60: Promotion characteristics

Barriers of international promotion	Language-Bilingualism and multilingualism Local laws-permission and prohibition Culture-taboo

	Means of communication-traditional or electronic Attitudes, preferences and tastes-very different between regions, countries tribes, locales Economy and income-average income, gap between rich and poor Purchasing process-differing between end-customers (consumers), private businesses (large and SME), public authority and enterprises together with country based specificities
International promotion impact factors	**Strategy:** Pull (stressing attractiveness of own products and services) and push (stressing unattractiveness of those of competitors) Money and other resources Cost of each of promotion activities Time horizon of competition Market entry mode Feature of promotion tool, market and product itself
Promotion process	1. Market analysis and assessment 2. Setting goals 3. Designing message 4. Selecting promotion tool 5. Determining action plan based on time, effort and budget needed 6. Implementing action plan

Source: Own development

The objective of a promotional campaign is dependent on the buyer's readiness to make a purchase. A common model to gauge this readiness and for setting the promotional objective is the AIDA model, where each of the alphabets stands for the different stage of the customer's readiness in purchase, and they are Attention, Interest, Desire and Action.

Attention: This is the first stage where communication aims to capture the attention of the market. This usually happens at the introduction stage of the Product Life Cycle where the new product is just launched into the market. At this stage, the market is unaware of the new product, hence, promotional activities aims to create awareness or attention to the new product or brand. The tool chosen for this objective is usually advertising. Advertising is used to communicate to the public and advertisement used tends to straightforward, showing the simple illustrations of the product, without much information provided as marketers hope only to generate awareness. Advertising media to be employed here includes all kinds of media, i.e. both broadcast and print media.

Interest: At this stage, it is important to generate interest in the product and this is achieved by communicating the benefits of the product to the market. Unlike the earlier stage where limited information is provided, more information is made available to the market and again advertisement is used. However, advertisement for this stage is usually more informative, thus more of print media is chosen to achieve this objective. Print media, are media that allows advertisement to be printed on and distribute to the market, this include newspapers, magazines and brochures. Through advertisement on this media, potential customers can read and gather information at their own pace. In addition to advertisement, public relations can also be used. This involves the invitation of the press to assess and write about the new product in the newspapers, information appearing in the newspapers enjoys higher credibility than those communicated through advertisement hence this can convince the potential buyers more easily.

Desire: After creating attention and generating interest, it is time to induce the desire for purchase. Consumers usually have the motivation to fulfill more than one need at any one point of time but most will not be able to do so because of limited resources, so consumers usually rank and prioritize their purchases to fulfill each need in a ranking order. For marketers, the task is to persuade consumers to modify their ranking and move the motivation to purchase their products to be first in the ranking order. To do this, sales promotion is most commonly used. Being a short-termed incentive, sales promotion offers the opportunity to purchase the same product at a reduced price, but the offer is valid only for a short period of time, consequently this tends to influence the consumers to take advantage of the offer, resulting in a desire to purchase to the new product.

Action: This refers to the purchase action of the buyer. At this stage, the most suitable promotion tool is personal selling. After generating sufficient interest and desire for purchase, consumers make the effort to purchase the product. Personal selling is most suited at this stage because of the need for guidance for the consumers throughout the purchase process. Depending on the type of product and the level of assistance required, marketer need to provide sufficient salespersons so that consumers can experience a pleasant encounter throughout the purchase process. Imagine a situation where advertisement and sales promotion were executed successfully, resulting in a mass of potential customers coming to the outlet to make the purchase, but there is no salesperson to guide and help them in the queries, this could result in chaos and instead of selling successfully, it may create a bad impression of the marketers resulting in consumers leaving even before making a purchase. Alternatively, marketers can consider using direct marketing for this stage of purchase readiness. By allowing consumers to purchase via telephone, fax, mail and e-mail, marketers can manage the purchase process more easily.

After discussing the different stages of purchase readiness using the AIDA model, the next issue is the discussion of each of the promotional tool in a so-called promotion mix.

Advertising-This is a form of paid communication, using one or more forms of media, to communicate a non-personal message to the market. The message is aimed at the mass market that it is targeting hence it is not personalized to suit the taste and need of any individual. In the advertisement, the marketer is the paid sponsor and is usually identified in the advertisement. Marketers regularly advertise using all forms of media, communicating to thousands or millions of people every day. The media available are broadcast or print media, both having their advantages and disadvantages. Using broadcast media like television and radio, marketers are able to transmit colorful images or catchy tunes or dialogues, and this form of advertising is extremely effective especially if it appeals to the target market. The advertiser can maximize their creativity using this type of media to capture the attention of the market. Using broadcast media has a major drawback and that is the inability to provide much information. This is because of cost and difficulty in communicating huge amount of information. As broadcast media tends to be expensive, there is limited airtime for the advertisement to be broadcasted in addition it is also difficult for people to comprehend too much information through television and radio within the limited time of the advertisement. However, using print media, like the newspaper and magazine, large amount of information can be communicated very effectively. People tend to spend time in reading newspaper and magazines, and the message being printed on the media, will allow them time to slowly read and digest the information printed. An interesting platform has emerged within these decades and it can combine both the broadcast and print media and that is through the Internet. It allows advertisement to exploit the advantages of the different types of media. Using the Internet, advertisers can play movies, music and even publish detailed information allowing the customers to read through thoroughly. Customers can choose to print the advertisement in hard copy if he or she wants to retain the advertisement for further consideration and with the use of cookies and selected website, advertisers can target their customers more accurately.

Advertising can be used in conjunction with other tools to provide synergy in the communication process. For example, in a sales promotion where prices are discounted, the sales promotion will not be effective if the market is not informed and to achieve this, advertising is used.

In global advertising, marketers need to consider the strategy used, whether it is a standardized advertising strategy or a localized advertising strategy. Using a standardized strategy, i.e. the same message communicated throughout the world, the main advantages are cost efficiency where advertising cost is kept to a minimal since there is no extra production cost to produce a different advertisement and consistency of message communicated as the same advertisement is communicated throughout the world. However, there are situations where marketers need to localize its advertisement to suit the local market and this is when there are huge differences in the market in areas like competition, culture, attitude, perception, values, etc., and all of these affect the way customers interpret the advertisement. Even in the standardized strategy, it is common that to have slight modifications as it is used in the different countries. Again, this is to suit the taste of the local culture and sometimes, to correspond to the legal requirements of the country it is advertising in.

Finally, advertisers aim to communicate to the market, however, there are 2 issues advertisers are faced with today, that are affecting the effectiveness of advertisement. First, it is the amount of advertisement that an individual is exposed to everyday. Day in and out, everyone is exposed to hundreds of advertisement, this is through the television, radio, newspaper, magazines, billboards, bus and train advertisement, and many other forms of media. Amassed with this amount of advertisement, individual tends to ignore or forget the majority of them hence rendering the advertisement to be ineffective. Another reason is that people tends to avoid advertisement. It has been established through studies that most television viewers tend to avoid advertisement by switching to other channels, going to the washroom or attending to other chores. With video recording, most viewers can choose to skip the advertisement. This has prompted advertisers to consider the return on investment using advertisement. Even though advertisement is plagued with these uncertainties, advertising is still regularly used because it is one of the most effective methods in communicating to the masses. In terms of cost to communicate to an individual, it is still one of the lowest, as an advertisement is exposed usually to thousands of people, reducing the average cost it takes, to reach an individual.

Personal selling: This is a personalized form of communication, where the salesperson will address the need of the prospect and personalize the message and sometimes, even product or service to the customer. By using a salesperson, it brings about the main advantage of being able to address issues faced by the prospect, this can include misunderstanding of the service or product, clarification required where the offering is complex and even helping the prospect in understanding their own needs. Another advantage is the ability to build strong customer relationship. Especially in the case of business purchase where there is a high chance of repeated purchase, establishing strong relationship with the customer will increase the chance of repeated purchase. With strong customer loyalty, customers will repurchase without going through the process of evaluation as required in the purchase of an unfamiliar product. Personal selling is a very effective tool especially in the final stage leading to the purchase of the offering, but this also has its disadvantages. This is an expensive tool as the cost of hiring a salesperson is high, on top of that, a salesperson can only meet and communicate with only a limited number of prospects per day. This is extremely expensive when compared to advertisement where communication can be extended to many more people at a much lower cost. Next, salesperson can sometimes be over zealous and pressure prospects into buying something they do not require and this can be damaging to the reputation of the company or its brand. In the context of global marketing, salesperson are traveling to more places, meeting an even greater variety of people. This made the requirement of a salesperson to be more stringent as they must have the knowledge and ability to communicate effectively with people of different culture. Lastly, personal selling is useful in the final stage where persuasion is crucial in the decision making of the potential customer but it can only succeed when this tool is used in conjunction with other tools.

Sales promotion: It is a short-term promotional tool used to promote sales. Sales promotion is used for many purposes it can be used for inducing trials of new products, increasing sales, countering competition and even clearing excessive stocks. Sales promotion is usually used for only a limited period of time because extensive usage can destroy the image of a brand. There are many ways to implement sales promotion. The common methods include free gifts, discounted price and rebates. Different methods of sales promotion can offer different applications. Free gifts and discounts are given to encourage customers to buy quickly or buy more, and this will help organizations in increasing its market share. Others use sales promotion to build loyalty and this is accomplished through the use of rebates. By encouraging customers to buy repetitively through rebates, customers become accustomed to the marketers and tend to return to them for purchases of that particular product. Starbucks uses this strategy to entice customers to return to them for repeated purchase.

Direct marketing: Using a well-organized database and some form of mass communication mode e.g. Internet, television, telephone or mail, marketers propose a sales offer directly to the prospects and this is called direct marketing. This proposal comes with the instruction on the manner that how the prospect can respond. The response can be made through the mail, facsimile or a simple phone-call. Direct marketing is a cheap and efficient way to reach prospects as it reduces marketing cost by removing the layers of wholesalers and distributors. Popularity of this tool is increasing and it is due to the advancement in information technology, enabling marketers to collect and organize database efficiently and effectively. Using the Internet, direct marketing helps marketers in accessing to the global market at a very low cost and with the use of cookies; marketers can target their customers more accurately. One drawback using method is that it may create a misconception about the marketers when they target the wrong customers or when the customer is not ready to commit to the purchase. There are many complaints about junk mails and Spam in both the traditional mail and the Internet, and this is the result of sending direct mails to the wrong group of people. Some recipients of such mails may just dispose of the mail but others may launch complaints about them and this can affect the reputation of the marketer. In addition to the problem of bad reputation, marketers also waste resources when these mails are thrown away. To avoid this, database must be accurately assembled and subject to regular updating, so as to minimize of the chance of misdirecting the mail. Lastly, direct marketing is often used in conjunction with sales promotion. Marketers who have accumulated database of their existing customers commonly use this combination when they wish to either clear their old stocks or launch new products. In either case, it is easier to market to their existing customers who have purchased their products, and it also create an impression that the marketers are giving its customers, priority in the purchase of these products.

Public relations: This is the only form of communication that is not paid directly by the marketer and because of this marketers can exercise little control over this form of communication. Public relation, as the name suggests, is the range of activities that an organization conduct, so as to communicate the image of the organization or the brands, to the different stakeholders in the market. Many organizations make use of this to create goodwill so that customers will like them and support these organizations by purchasing their products or services. Public image can be improved by the organization’s participation in some activities that are perceived as beneficial to the society. This includes donations made to welfare organizations, participation in activities or practices that protect the natural environment, sponsorship of sporting or social events. Through any of these activities, organizers of the activities will help promote the marketers by informing the public of the marketer’s participation and this is usually done, by naming either the brand or the marketer as their sponsors. To enhance the image of the marketer, it can sponsor the same event repetitively. For example, NKF Charity Show is an annual event and if the same marketer were to sponsor the event consecutively for a few years, it will create the perception that the marketer as synonymous to the event; and this will boost the public image of the marketer. Another form of public relation is the press release and press conference and these activities are directed towards the press. This is when the press is furnished with information of extraordinary significance, e.g. launching of new product, issue of public shares, etc., and the press will publish report about them. Information coming from a third party, in this case the press, is perceived to be impartial hence enjoy a higher credibility as compared to messages communicated via advertising. This is commonly applied to the launching of new product, and with the report from the press, the marketer can communicate to a wider audience. Marketers have many choices in the execution of their promotion strategy, choosing the right combination is crucial to the success of the organization.

Physical evidence (physicality)

Physical evidence is a crucial mix and this is useful for 2 purposes. As mentioned earlier in the marketing of services, there is no tangible product to be owned by the customer, hence it will be difficult for marketers to show or demonstrate to the customers the benefit that the customer will get, for making the purchase. To help in the marketing of services, physical evidence in the form of brochures, certificates, printed testaments or press reports can be used to give an idea of what to expect and the kind of benefits the customers will probably get if he or she were to make the purchase. Next, physical evidence also serves to remind customers of their purchases, reinforcing them of the benefit that they have gained in the purchase of the service. Given that the customers do not possess or acquire any tangible product after paying for the service, physical evidence is often used to remind them, hence reducing the cognitive dissonance effect that may materialize after spending large amount of money.

Process

To tackle the issue of variability of the service process involving both the service provider and the customer, monitoring of the quality of the process plays an important role. The customer will go through the process, resulting in only an experience that the customer will decide if he or she is satisfied. Consequently, the customer will then decide if he or she will become a repeat customer, and make the purchase of the same service in the future. For example, the customer pays for the service of a medical doctor, and the customer will meet with the doctor, i.e. the service provider who will provide the service. The customer will go through the experience of medical consultation with the doctor, and in the end the doctor will advise the customer on the result. In the purchase, the customer do not acquire the ownership of any tangible product, but only the experience of being consulted by a doctor, and this is achieved through the process of medical consultation. Hence, it becomes critical that customers must find satisfaction in the process. Failing doing so, the customer will go to another service provider the next time the same need arises. The difficulty involving process is that every customers going through the same process may have a different perception of the service, after all, not everyone going through the same experience will have the same perception. For example, a group of tourists going on a ‘10-days Europe’ tour, will result in an assortment of opinions among the tourists, ranging from the very satisfied to very dissatisfied. These opinions are affected by many issues, like experience, culture, expectations, etc., and made it difficult for service provider to manage. To overcome this, the marketers must first manage the expectations of the customers. Prior to the purchase, potential customers must be made known of what to expect so that they do not have unrealistic expectations. This is normally accomplished with proper sales training so that the salespersons do not oversell the service, and another way is through the use of some literature, e.g. brochure. With brochures stating the process and the benefits, customers will not be misled into higher expectations. Secondly, service providers can formalize their operating procedures and this is to ensure that each customer goes through the same process irrespective of who the customers or the service providers are. On top of that, quality checks can be conducted to guarantee that service providers conform to the procedures set by the marketers. Finally, marketer must actively provide the channel for feedback and find out how customers felt about the whole process in case of any abnormality experienced during the service process. Generally, process, in this case, can normally be categorized into 3 categories and they are: Pre-service process; In-service process; Post-service process.

Pre-service process: This is a series of processes where a customer goes through before making the purchase. The process can be simple or complex, depending on the nature of the service. Some pre-service process involves complex consultations where service provider must first find out the need of the customer before customizing the solution to suit the need of the customer. In the case of a warehousing agent, the pre-service provider may want to find out the needs of the customer before submitting the proposal to the potential customer. The agent may need to investigate about the nature of the products to be stored in case of special requirements, the quantity to be stored, the movement of the product and maybe even the security requirements. The service provider will need to research on this information and this is usually achieved by interviewing the potential customer. After co-llecting all the necessary information, the service provider will then propose its recommendation to the potential customer. The pre-service process is important as the potential customer will form his or her perception of the service provider as he or she goes through the pre-service process and this will usually develop into some kind of bias either for or against the service provider. The decision of purchase may be heavily influenced by this bias. If the potential customer feels that the service provider is unprofessional or careless, he or she may decide not to purchase from the same service provider even before seeing the final proposal. In the situation of a banking service, the pre-service process is much simpler. As banks are usually located in populated areas, the pre-service will probably involve the process of accessing to the bank, i.e. whether the bank is conveniently located or if it is easy to park a vehicle if the customers were to drive their own vehicles. Failing any of which, the bank will find that it will have very limited number of walk-in customers. That is the waiting time, if banks that are very conveniently located and are usually crowded, the waiting time tends to be long and this may repel customers from going to that bank or that branch. Popular banks or branches try to reduce the ill-effect of this pre-service problem by installing queue numbering system and broadcasting interesting programs on their in-house televisions, to take the customers' mind off the process of waiting. If the customers are affected by the long waiting time, it will, not only affect the perception of the bank, the customer will also feel unhappy even before seeing the bank officer, and upon meeting them, it will increase the chance of them complaining or venting their frustration on the service provider. The effect is detrimental for the bank even if the bank is not at fault. Hence, pre-service process must be thoughtfully designed and executed, as it can seriously affect the purchase decision of the service.

In-service process: This is the part of the process where the customer experience for himself or herself, the purchase he or she had made. The process must be designed with the minimal hassle to the customer. With development in information technology, this process can be developed to be perceived as professional and efficient, for example, having updated information about the customer will impress upon the customer that the service provider is genuinely concerned about them or having latest information about development in the industry will give the impression of their professionalism. With the right application of information technology, customers need not repeat themselves on the same information and this will reduce the monotony and frustration of having to do the same thing repeatedly. Depending on the nature of the industry, the process can be benchmarked differently, hence defining the competency of the service provider. For example, in the service of medical practice, customers want a thorough examination allowing the doctors and themselves in understanding their medical condition, so that the right treatment or medication can be administered. In this instance, customers would want a slow and meticulous examination, and probably assess the doctor by the accuracy of his or her diagnosis, and how quickly the customers recover after the service. Timing or time spent during the service is never considered as virtue of this trade. However, in the example of banking or courier service, timing is everything. Due to this, organizations must understand the need and expectations of the customer and set the right measure to gauge, in ensuring that it is providing the best service, as perceived by the customers. In doing so, it can also communicate to its service staffs the measure that is used for their performance appraisal.

Post-service process: This is the process that a customer encounters after purchase and consuming the service. Again, depending on the nature of the service, customers may require some level of service to help them reinforce that the money is well spent or to help them in remembering the service so that they will come back again where the same need arises. Follow-up service is a common technique used by some hoteliers to remind customers of their hotel stay and this can come in the form of a thank-you card or a feedback form. This kind of process helps in the building the image of a service provider and serves to help building customer loyalty. Finally, irrespective of the kind of process the customer is involved in, it is crucial that service providers try to understand the attitude and perception of their customers while going through the process and those after that. This is because of the uniqueness that a service can provide and as long as customers found it in their service providers, they will continue to stay with them for as long as they are not disappointed, and it helps the service providers in building their loyal customers in this competitive environment.

People

This is the last of the marketing mix and this mix is critical because of the inseparability between the service providers and the customers.

Throughout all of the processes in services, the most common factor is the interaction with people and in this case, is the service provider. It can be in the role of a doctor, salesperson, lecturer, lawyer, waiter and many other professions that provide services for their customers. Customers formed their opinions of the service organizations based on what they experience and the only person that is guiding the customers through the process is the service provider, hence it is important that service providers empathize with the customers and help them through the process in the most suitable manner. Due to this, service provider must be properly trained to maintain their professional disposition and try to help their customers. Organizations that have good human resource practices tend to train the staffs well and retain them in the organization for a long time, this helps service providers to learn and accumulate knowledge and in turn, helping to serve their customers better. Professional service providers, not only need to know information pertaining to the service they provide, they also are required to know of ways to handle customers under different circumstances. This involves human skills that are very difficult to teach and are usually learned after many years of experience in dealing with customers. Lastly, staff morale is also critical, as motivated staffs tend to provide better service. Hence, organizations must try to motivate and retain its staffs as these knowledge and skills take many years to master, this is one of the ways organizations can gain its competitive advantage over its competitors and that is providing service at a level that surpasses everyone else. In summation, using and manipulating each of the marketing mixes, marketers achieve their objectives by communicating and marketing their services to the market. Finally, knowing the marketing mixes in this dynamic business environment is not sufficient for modern marketers to compete, marketers must also be aware and reactive to the changes in the business environment and this is discussed in the next passage.

5.3 Strategic international marketing management

5.3.1 Key concepts of strategic planning

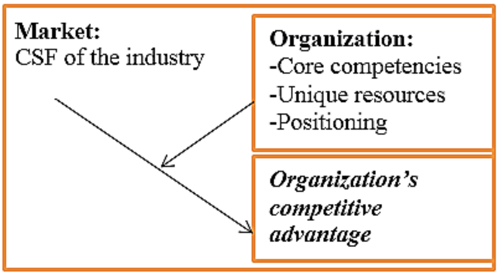
Strategy and strategy related concepts

Before we proceed to the strategic planning, there are some key concepts that must be understood. They are terminologies used commonly in planning and they are:

- Critical Success Factors (CSF)
- Core competency
- Unique resource
- Positioning
- Competitive advantage

Organizations exist in diverse markets and in each of the market, there are various success factors, some of them are significant and known as Critical Success Factors or Key Success Factors. Within each organization, there exists competency, resources and specific position in the market that are unique to each of them. By understanding these organizational factors and the required success factors of the market, marketers attempt to develop their competitive advantage over their competitors as illustrated in the following.

Illustration 96: Factors impacting corporate competitive



Source: Own development

Critical success factors

Prior to a purchase, customers will identify his or her needs and search for options that can fulfill these needs. After gathering information about the various options in the market, customers make their choice based on an evaluation of the criteria they create. Each of the criteria in the evaluation exercise carries different weight. Depending on the needs of the customers, they will rank them in a hierarchical manner and rate each of the criteria in their perception. After rating each of the criteria, customers will add up the total score of all of the criteria and the option with the highest score will usually end up being the choice of purchase. As marketers, it is important to identify these criteria that the customers' evaluations are based on. By improving on these factors, marketers can increase its chance of selling the products to the customers. These factors are critical to the success of the marketers hence they are called critical success factors (CSF) and are sometimes known as key success factors (KSF). In any industry, there are always some factors that marketers can make use of, however they differ with industries. For example, in the industry of warehousing service, security may be a key consideration especially with the increase in terrorist attacks over the recent years. This could also be an important criterion with customers who are dealing with sensitive or expensive inventories. Hence, by focusing on this factor to be better than its competitors, the warehousing service provider may be able to gain some advantage over its competitors. Another benefit of focusing on a single factor is that it can build its reputation based on this factor and boast itself to have the highest security warehouse in the market. Through the identification of these factors, marketers can position themselves to be leader in the market, specialized in the chosen factor. It is important for marketers to choose the appropriate factor to focus on and the selection of the factor depends on many factors, e.g. competitors' positions, company's resources, preferences of customers, etc. Many marketers make the mistake of focusing on too many factors and this confuses the customers and gives them the impression that the marketer is not a specialist in anything.

Core competency

In the choice of identifying which CSF/KSF to develop, organization needs to look inward, i.e. into the organization and asks itself what it possesses and what it is good at. This inward search is the search for the core competency of the organization. A point to note about this competency is that it must be difficult for competitors to copy and this means that not all that the organization is good at can be considered as its core competency. This is because if it is easy to copy, competitors can easily emulate the organization and offer similar products or services into the market, rendering the organization to be the same as all the others. Then effort going into the development of this competency will be wasted and the organization will be competing on equal standing with its competitors, forcing it to compete probably on price, of which will not be beneficial to the organization. Another consideration is that organizations must try to search for this competency within the organization. The reason is that it is always easier to develop and improve on what the organization possesses than to try developing something new. Of course, it is possible to develop something from scratch; however this will take time and may be costly to do so. Therefore, organization should analyze its strength and understand itself better before deciding. Core competency exists in the form of organizational skill or ability. Organizations accumulate knowledge from its past experiences and find ways to improve the way it conduct its business. It could be experiences and skills in the area of research & development, production, purchase, etc. With these accumulated knowledge and skills, organizations can find ways to market its product more efficiently and effectively as compared to its competitors. As described earlier, the competency exists through organization's skill or ability. Being competent in a skill that can enhance the

CSF, the organization can provide better value to its customers. For example, if an organization is competent in producing low cost papers (core competency) and the market is extremely cost conscious (CSF) the organization can focus and improve on its cost reduction (competitive advantage), to enhance its competitive position in the market.

Unique resources

Operating a business is always about configuration of its resources. With optimal planning, resources can be maximized to generate the highest return on investment in its resources. However, with unique or specialized resources, organizations can not only ensure high returns, they can also provide the organization with an advantage over its competitors. Unique resources, in this instance, refer to specialized skill, privileged information, advanced technology, special material, etc., and any other resources that other organizations cannot easily acquire. Organizations, having the ability or in possession, of these resources will able to create a competitive advantage over its competitors, this hold true for as long as the competitors are not able to do so. In the event when they managed to do so, the competitive advantage is immediately eliminated.

Positioning

Positioning is defined as a process in which marketers strive to design and communicate its unique offerings in relation to its competitors, so as to be perceived as competing in a specific target market, and not competing with all competitors from the entire market. The organization's position can comprise of its products or services, the selected markets and the degree to which it is distant away from its competitors. The process of positioning is costly and time consuming to achieve, however, upon reaching the objective, organizations will enjoy recognition that will draw the targeted customers towards them, especially in a selected market where there is no perceived competition. With this positioning, organizations can gain an advantage over its competitors, as it is perceived to be the ideal organization, when compared to its competitors that can fulfill their unique needs. Lastly, a consideration about the choice of competitive advantage is that it controls the scope of market in which an organization can compete effectively. Because of the way the organization produces and markets its products, it limits the scope of the market and restricts it from marketing its products into other markets. This is one disadvantage of competitive advantage. Hence, it is critical to choose an appropriate advantage leading to the market potential and one that can be sustained over a period of time before competitors find ways to overcome this advantage. Relying on the combination of the above, organizations can achieve its competitive advantage over its competitors. For global companies, having a structured strategic framework is almost a given. Nevertheless, the strategic planning model deserves a detailed study to highlight the importance of structured and systematic planning for global organizations.

Competitive advantage

This is defined as an advantage in which organizations can use to compete against its competitors. Using this advantage, organizations can perform better and offer better value to its target customers. According to many literatures, competitive advantage can generally be derived from within the company using the following sources: core competency, unique resources and positioning.

Strategic management and planning

As the definition of marketing goes, it is to understand and fulfill the needs of the customers at a profit to the organization. Failing to meet customers' needs or in generating profit for the organization, will result in the downfall of the business. Organizations with large number of employees and resources would require proper planning and management so as to ensure that they are properly deployed and contribute to the achievement of the organization's objective. Hence, it is important for organizations to plan for its activities so as to achieve the marketing objective. Strategic management, i.e. the management of an organization's strategy is therefore applied to achieve that objective in the context of long-term planning. The *strategic management process* includes:

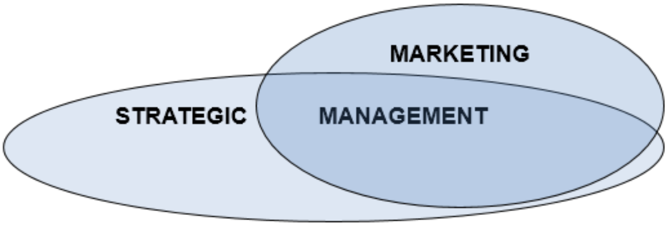
- Strategic Planning
- Strategic Implementation
- Strategic Control

This is to make certain that the strategy is properly planned and executed so that the organization can stay on track, in achieving its objectives.

Strategic marketing management is the process of strategic management of marketing function of an organization. That is to guarantee that marketing function is carry out properly, marketing strategy to be planned and executed in accordance and to support a given business strategy allowing an organization to achieve its objectives. So, the *strategic marketing management process* should include the following major stages:

- Strategic Marketing Planning
- Strategic Marketing Plan Implementation
- Strategic Marketing Plan Control

Illustration 97: Strategic marketing management



Source: Own development

Before we start to discuss about the planning, marketers should understand the needs to plan. This is because planning is a tedious exercise involving many staffs of different management levels and much time is dedicated to this process. Failing to understand the need to plan will result in poor planning, as planners may not commit whole-heartedly to the process, instead they do it just to please the superiors. Planning is executed for many reasons and they are:

Making the most of an organization's limited resources-Organizations are always limited in its resources and these include tangible and intangible resources. Some examples of tangible resources are cash and capital assets while intangible resources include knowledge and brand equity. Using different configurations of these resources, organizations try to find the best way to compete against its competitors, emerging as the leader. The wise use of these resources becomes critical in organization because they are limited, and that means marketers need to make the best use of them as there are only so few of each of the resources. Another reason is that they are exhaustible, and once depleted, they may be difficult to replenish. In planning, planner tries to look into the future and allocate these resources to take advantage of the future environment so that each of the resources is used in its optimum applications that can help organizations in gaining its advantage over its competitors.

Coping with change-Change is becoming rampant and erratic and organizations need to change to cope with this chaotic time in order to survive. However, change can be confusing and difficult to understand, making it difficult for marketers to cope, resulting organizations being thrown into turmoil. Some organizations attempt to change, however, without planning the change can be unfocused and confusing. Marketers may not be able to provide valued products to their customers and as a result, customers will turn to competitors for better offerings. Organizations that are unable to cope with the changes in the environment will eventually be eliminated from the market due to competition. With planning, organizations will try to understand the changing competition and the changing needs of the market, then it can position itself into an advantageous position in the future market so as take advantage of these changes.

Providing the employees with a focused direction-In any organization, staffing is inevitable. Organizations of different sizes will employ different number of people and organization performance is largely affected by the concerted effort of its employees. Each employee is different as each of them, is affected by different culture, education, attitude, experience, perception and many other factors. This assortment of people will result in differing views and opinions, and the outcome is different behavior and actions that can affect the organization performance. Without proper direction and management, employees in an organization will act on their own accord and reduce the organization's effort in marketing its product to the market. To counter this, marketers plan and communicate the organization's plan and objective to the employee so that everyone in the organization knows about it. This will direct them to work effectively in helping to achieve the organization's objectives; it will also provide them a sense of direction that will help motivate them towards the objective. The need for this sense of direction is heightened by the changes in the environment. As organizations evolve to cope with the external changes, employees can sometimes be disillusioned and confused about these changes. This can demoralize employees and discourage them against change. On the other hand, with proper planning and communication, the understanding of change can be improved and the change can be better perceived. Consequently, with the full co-operation of the employees, organizations can change effectively and quickly adapt to its new environment.

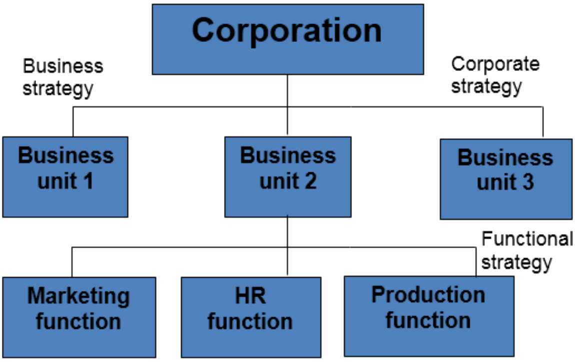
Consistency in communication to the public-Marketers need to be consistent in communicating to the public about its offerings. This will help in the memory retention of the brand and the organization. Through planning, marketer can periodically communicate its offering based on a single theme. Over a period of time, the public will be able to recall and distinguish the distinction in the organization's offerings as compared to the competitors. This will increase the marketer's chance of marketing its offerings to the right target market. After understanding the needs to plan, the next discussion is focused on the planning per se. In planning, there are different types of planning for different types of strategy, suited for the different management levels and the different time horizon. Marketers need to understand the significance of each of them so as to be able to apply the appropriate plan for each different strategy.

Levels of strategic planning

As mentioned earlier, there are many types of planning, each for the different management level and different time horizon resulting in different types of strategy. The different types of strategy are:

- Corporate strategy
- Business strategy
- Functional strategy

Illustration 98: Levels of strategy



Source: Own development

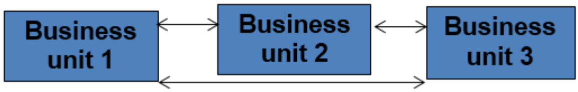
Corporate strategy

Corporate strategies are developed through corporate planning and they are developed by planners, at corporate offices (headquarters) of large conglomerates. The conglomerates tend to own many different business units or products. Each of these business unit or product target a different market and each play a different role for the organization at different point in time. Some businesses are maintained for the purpose of generating cash while others may be established in preparation for a future market. By managing a range of businesses or products, organizations can grow effectively into different markets. It also helps the organization in managing its risk as it spread the investment and risk over many businesses. A common model used in corporate planning is the Boston Consulting Group model (BCG model) and a modified model that evolved from the BCG model is the General Electric model (GE model).

Business strategy

Businesses owned by conglomerates are known as strategic business units (SBU) and planning executed by these businesses is known as business planning. This kind of planning is used to develop the business strategy in support of the corporate strategy. For example, when the corporate office plans to groom and grow a particular business unit, business strategy for the selected business unit will focus on strategies to grow aggressively. In addition, business units often support and cooperate with each other in a bid to achieve their objectives and the overall goals of an organization

Illustration 99: Business units' interrelations

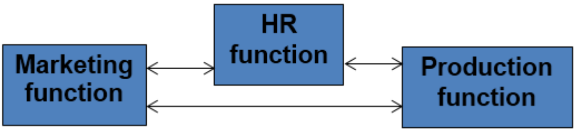


Source: Own development

Functional strategy

In each of the SBUs, there are functional units like the human resource department, production department, marketing department, etc., and each of these departments must also plan their strategies in support of the business strategy and these are known as functional strategies. In previous literature of strategic planning, it has been accepted that strategic planning for corporate strategy is meant for long term planning of which can range from 10 to 15 years. However, in the recent years when changes in the environment has become so accelerated and intense that long term planning is no longer able to serve its purpose in helping the organization, a modification of it has generally been accepted and it has effectively reduced strategic planning to just from 3 to 5 years. Cascading down from corporate strategy formulated at the corporate office of a conglomerate to the functional strategy of each of the SBU, strategies at the different levels work hand in hand to ensure that the corporate objective is met. As illustrated in the illustration below, functional strategy is planned to support the SBU, and in turn, the business strategy is executed to support the corporate strategy. A combination of these strategies will help the conglomerate in achieving its planned objective.

Illustration 100: Functional strategies' interrelations



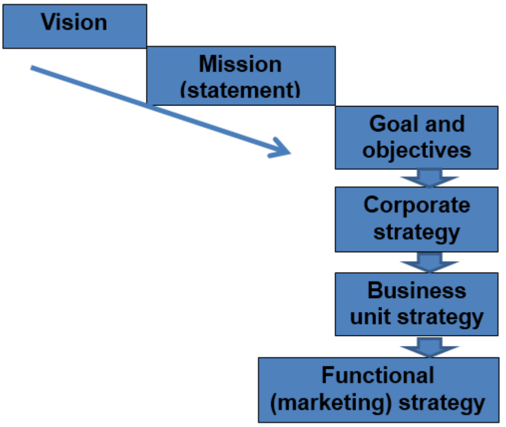
Source: Own development

5.3.2 Process of strategic marketing planning

After understanding the different concepts in strategic management, it is time to explore the process of strategic planning. They are top-down as follow:

- Vision clarification
- Mission statement
- Goals and objectives setting
- Corporate Strategy-Business portfolio design using BCG model/matrix
- Business Strategy-Business unit analysis using SWOT model/matrix
- Functional Strategy
  - Marketing strategies
  - Growth strategies-using Ansoff model/matrix
  - Marketing mix strategies

Illustration 101: Process of strategic (marketing) planning



Source: Own development

Vision

For planning to be successful, there must first be a vision of what the organization hopes to achieve in the future. This vision is just about an idea intuitively and creatively formulated in the mind of the leader or leadership board. Though there is no concrete or structured methodology in achieving this vision, it plays the role of inspiring employees and providing them with a guidelines and a sense of direction in the organization’s effort and endeavor forward.

Mission statement

After visualizing the future of the organization, it is time to state them explicitly so as to be able to communicate the vision to the different stakeholders inside the company and outside, in the business environment. These stakeholders include investors, employees, customers, suppliers, governmental agencies, etc. A good mission statement should encompass the following:

- Organization intention and aspiration-this describe the intention and aspiration of the organization, and also the position it wishes to attain in the future.
- Type of business it is involved in-mission statement must also state the kind of business it is involved in and the type of customers it is serving, this will give an idea of the industry that it is in and the kind of activities that is expected of them.
- Statement of key values-Finally, it must also communicate about the value system of the organization of which can be translated into the organization’s culture. After stating the mission for the organization, the planning is initiated to achieve what the organization sets out to achieve.

Goals and objectives

Goals and objectives are to express the mission more concretely in certain space and time. Moreover, goals are the basis:

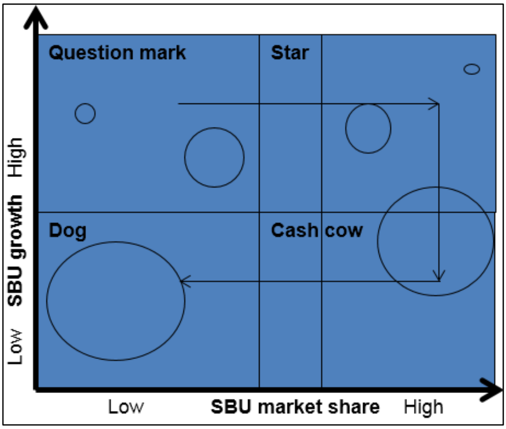
- To plan the business and deploy necessary resources.
- To control and assess business performance pursuant to the plan.

Corporate strategy-business portfolio design

This stage is applied when the organization has various business units or product lines operating in different markets. Corporate strategy is used to help the conglomerate in achieving its objective and this entails the management of the business units owned by the conglomerate. However, before planning, a proper analysis of the business units is necessary, so as to understand the current state of the entire organization. To do this, a portfolio analysis model called the BCG model is used, this model plays the dual role of analysis and helping the organization in deciding the strategy for each of the business units, so the planners can decide which of them would require more or less investment. It can also help organizations in the management of growth by visually presenting the growth potential of the different business units.

BCG model-the Boston Consulting Group (BCG) model is a commonly used model for planning the corporate strategy. The other commonly used model is the General Electric (GE) model. The BCG model is a 2X2 matrix while the GE model is a 3X3 matrix evolved from the BCG model. This model is illustrated below.

Illustration 102: BCG matrix



Source: Own development

This model is also known as the Growth-Share matrix of which is represented by the axes of the matrix. The circles in the each matrix represent the different business units or products and they are also known as Strategic Business Units (SBUs). The size of these circles represents the sales turnover of the SBU. The vertical axis is the Market Growth Rate ranging from low to high and it is an indication of the growth potential of each of the SBU while the horizontal axis is the Relative Market Share, also ranging from low to high, and that is the indication of its relative market share of the SBU. The four quadrants of the matrix represent the four categories of developmental stage with reference to growth potential and its relative market share. The SBU in each of the quadrant of the matrix indicates the current developmental stage that the SBU is going through and they are named according to their quadrants' names. The position of these SBUs will determine the different financial requirements of each SBU, its strategic choices and implications and they are as follow:

Question Marks-SBUs in this quadrant will experience high growth, however, they are relatively weak as compared to its competitors as their market share is small. Organization needs to consider if it wants to invest into them, so as to increase its market capitalization. In this decision, the major considerations are the risk involved and the availability of the fund. Though the growth potential is identified, there is no guarantee that the growth will definitely materialize and even if it does, by investing more into the SBU, it does not guarantee an increase in the market share as competitors can chart similar course of actions and maintain their competitive positions. The other consideration is about the availability of the fund, by investing the available funds into a selected SBU, it may deprived the others of the same opportunity, hence, organization needs to consider carefully the SBUs that they are focused on and others that they may need to forsake.

Stars-Stars has high growth potential and enjoy high market capitalization and tends to be market leader. Organization will usually invest more into them for the purpose of securing its competitive position so that when the market grows, these Stars can be exploited to maximize both sales and profit for the organization.

Cash Cows-In this quadrant, Cash Cows are usually carried forward from the Star quadrant when the market grows. This segment is known as Cash Cow because this is the time when the most cash can be harvested from the SBU as it reaches its maximum growth potential while less funds is invested into these Cash Cows because of the likelihood for its market growth to decline.

Dogs-This is a category where the market share of the Dogs is relatively small and there is little or no market growth potential for the Dogs. These tend to be carried over from Cash Cow after the market demand had reached its peak in the quadrant of Cash Cow. Organizations must decide if it wishes to continue its activities in these markets, if so, a common strategy is to acquire other competitors so as to be the market leader and wait for the others to fade out. If the organization decides to exit the market, it can either sell the SBU to other competitors or liquidate it.

By studying this portfolio at any point of time, corporate planners can assess the organization from a few perspectives:

Question Mark and Stars-How much growth potential it had in the long term? Does it have sufficient potential growing SBUs to ensure the survival of the organization? If so, how much fund is expected to groom them? If not, what should the organization do to create more SBUs in the Question Mark and Star quadrants?

Cash Cows-When should organization start reducing investment, going into the Cash Cow so as to start milking them for cash? With the number of Cash cows, are they generating sufficient fund to finance the other SBUs?

Dogs-Organizations can identify the Dogs and decide on the fate of these Dogs. By divesting them, organizations can also generate cash for the organization, however, if the organization decides to keep them, more funds is expected as it is required to acquire the other competitors, so as to increase its dominance in the market.

A good portfolio is a balanced one where SBUs are well spread in all quadrants. This spread ensures that there is sufficient funds being generated by the Cash Cows and there is sufficient future growth in both the Question Marks and the Stars. Ideally, there should always be an excess of Question Marks, as not all will grow into Stars, the other reason is that it will present the organization with more choices and a higher chance of success. Using the BCG model, planners at the corporate level can have a better understanding of the current and future status of the entire organization. It will also help planner in determining the strategy for each of the SBU, of which the corporate strategy is based on.

Business strategy-business unit analysis

After planning on a corporate level using the BCG model, each of the strategic business unit will in turn plan their business strategy to support the strategy set by the corporate strategy. Before planning the business strategy, an in-depth analysis of the business unit is required and the model used to accomplish this is the SWOT model.

SWOT model-SWOT is actually the acronym for Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses address the internal environment of the business unit while opportunities and threats address the external environment of the market. Using this model, business unit tries to match the strengths and weaknesses of the business to take advantage of the opportunities of the market, while avoiding the threats in the market.

- **Strengths:** This is the business unit's strength and it refers to the organizations' competencies. It can be found in organizational skill, resources and even positioning, mentioned earlier in the text.
- **Weaknesses:** This signifies the weaknesses of the organization and depending on the nature of the market, this can be made reference to many factors, e.g. high cost, bad reputation, poor quality, simplistic product design, etc.
- **Opportunities:** This suggests the current or future opportunities the market present. This is usually the result of some changes in the environment, e.g. trend change, legislation change, new technological development, etc. With these changes, businesses can take advantage of them and offer new products or services to fulfill the needs of the new market.
- **Threats:** This indicates current and future threats that the business should avoid. Threats are presented in many forms, e.g. competitors, material shortage, trend change, political turmoil, etc. All of these factors can threaten the viability of the business.

Through the SWOT analysis, planners can sift out market opportunities that can be capitalized by the business and steer away from threatening markets. After the analysis, planners will plan the appropriate strategy for the business unit.

Functional strategy

In all of these business units, are their own functional units, e.g. production department, human resource department, marketing department, etc. All of these departments are also required to plan their functional strategy in support of the business strategy. Since we are focused on the subject of marketing, the following discussion will be directed only towards the formulation of the marketing strategy.

Marketing strategies

Like other functional units, the marketing department needs to develop its strategy to support the business strategy. In this area, the topic of segmentation, target marketing and positioning should also be discussed as it is critical to the success of the marketing strategy, however, because of the gravity of this topic, it will be discussed in the following chapter. Michael Porter suggests that marketers can focus on 3 areas on which they can develop the strategy. They are as follow:

Overall cost leadership: This strategy is focus on cost reduction so as to be able to produce and market its products at the lowest possible cost. With this, marketers can transfer the cost saving to the customers, by selling the products at a lower price than its competitors. This strategy is useful in markets where competition is high and it is difficult for marketers to differentiate themselves from the competitors. This strategy is also used in the marketing of commodities where price competition dominates the market.

Differentiation: Using the differentiation strategy, marketers try to set them apart from the competitors by focusing on certain characteristics of the product or market. Marketers communicate to the market of their focus on these characteristics, defining the differences between them and other competitors. Characteristics, in this case, can be design features valued by the customers, safety of products, service backup for products, etc. Depending on the nature of product, market and competition, these characteristics vary. Using this strategy, it tends to allow marketers to charge a higher premium as customers can be willed to pay more for something that they value.

Focus: This refers to a focus on a particular segment of the market that is less competitive. Marketers using this strategy can avoid competition and is helpful for organizations that are limited in size and resources. Upon targeting the segment, marketers can either use the cost leadership or the differentiation strategy to achieve its objective. Using any of the above three strategies, marketers can formulate their strategies. These strategies are designed strictly for the purpose of marketing and are not able to address the issues of growth. If the business is facing competition in the market and need to look for growth, marketers will need other strategies for the identification of growth and a common model used for this purpose is the Ansoff model, also known as the Product-Market Expansion Grid.

Growth strategies

For identification of growth opportunities, the Product-Market Expansion Grid (Ansoff matrix) is very popular in use. In this model, there are four suggested courses of action as in illustration 89.

Market penetration strategy

This strategy works on the basis on penetrating deeper into the market without modifying the products. This strategy can be executed by price reduction, encouraging more customers to buy the product or the same customers to purchase increased quantity, resulting usually in a bigger market share for the marketers. This strategy is easy to execute and there is low risk involved as marketers is familiar with both the product and market preferences.

Market development strategy

The mechanism of this strategy is to market the same product, but into another market without modifying the product. This is usually used when the same product is able to fulfill the needs of another market, and the competition in the new market is lesser. These markets may differ in geographical aspect, i.e. from one region to another or from one country to another. Or, markets may differ in other aspects, e.g. customer types. For example, for courier companies targeting mostly business customers, it can offer the same service to consumers of which is a totally different market. This strategy is relatively easy to accomplish, however, marketers must confirm that the new market is acceptable towards the product without modification, as there may be significant differences in customer preferences between the markets.

Product development strategy

As suggested by the name, the product is modified and introduced into the same market. Mobile phone manufacturers are using this strategy regularly in introducing new models into the market. This market is also less risky as marketers are familiar with the market and are able to understand the needs and preferences of its customers.

Diversification

This strategy requires the marketers to develop new products, venturing into new markets. This growth strategy holds the highest risk of all the strategies; however, it is still frequently used especially when emerging markets proves to be attractive to marketers. Finally, after understanding the different focuses of marketing strategy and the different growth strategies that marketers can adopt, marketers need to know of ways to translate them into practical strategies.

Marketing mix strategies

In the process of marketing, it is always about the manipulation of the marketing mixes that helps the marketers in marketing to the market. Therefore, to execute the marketing strategy, they must be translated into the various marketing mixes strategies, so that the appropriate action plan can be executed for each of the marketing mix. In this instance, they are:

Product strategy: This will dictate the planning, design and production of the products. Depending on the chosen strategy, organizations have a variety of choice in this decision. Some of the possibilities include low cost product, high quality product, product modification and many others.

Pricing strategy: Pricing can varies dependent on the business strategy and objective. It can adopt low price tactics or premium pricing. Pricing of a product can also be broken down to render the product to be more competitive. Depending on the marketing strategy, marketers need to adopt the complementing pricing strategy.

Promotion strategy: Depending on the marketing strategy and the image the organization hopes to build, different promotional tools can be used to implement the strategy, to communicate to the market.

Place strategy: It is dependent on the marketing strategy, product and target market and will decide the intensity and locations of its distribution. Marketers can choose different types of distribution strategy to distribute its products.

Physical evidence strategy: This refers to physical evidence retained by the customer, in consumption of a service. Very often, the chosen strategy is very similar to that of the promotion or communication strategy as they both play the role of communicating to the market.

Process strategy: In service marketing, different processes can be employed to project the image of the service level the organization is offering, again, this is governed by the marketing strategy and objective.

People strategy: In the choice of people strategy, this is usually carried out in co-operation with the human resource department, as it is the department managing the recruitment, selection and training of the service personnel. Marketing strategy, in this instance, dictates the number and types of employees it requires, to achieve the marketing objective.

Combining the applications of all of the above strategies, and execute them carefully and skillfully, objectives of the marketing strategy should be achieved.

5.3.3 Marketing strategy implementation and control

Strategy implementation

For the strategy to be successful, proper execution of the strategy must be carried out. To achieve this, communication of the strategy must be extended to all levels of the organization. This is a top down approach of management informing of the employees of their expectation. However, a bottom up approach must also be jointly applied, as management requires feedback into operational issues that may clash or impede the accomplishment of the corporate objective. Participative style of management is also recommended, as employees tend to be more committed when they can contribute to the decision making in the organization. For any strategic plan to work, it has to be translated into activities that can be acted on:

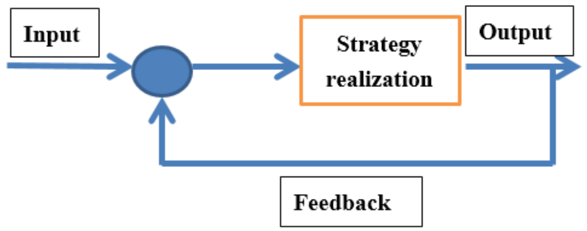
- Detailed road map of activity-How to go from point A to point B
- Time frame including date start and date end-When and how much time it takes
- Person responsible/accountable-Who leads the process of going from point A to point B
- Budget-How much money it requires
- Non-financial resources-Staff, input materials, intangible assets, etc. convertible to money

While the strategic plan is mandatory for the global arena, the marketing plan and sales plan are absolute necessity at the local level to cover the concept of 'think global, act local'. This has been discussed in the previous chapters.

Strategic control

Finally, in strategic management, control is an important element in ensuring the success of an organization. Firstly, through the feedback, it checks and ensures that the plans are carried out as intended. This allows corrections to be made along the process of implementation. Secondly, the feedback passes market information back to the management and this is probably the most important use of control, especially in the current times of change. Environmental changes are accelerated and this makes the planning process more challenging. Due to accelerated changes, plans that were deliberated may not be relevant by the time it is executed. This is where control provides the channels for feedback, informing the senior management of the need to modify its strategies.

Illustration 103: Strategy realization and control



Source: Own development

In summary, after understanding the process of strategic management from the corporate to the functional level of the business unit, marketers should be able to grasp the implications of their role in the business environment. More detail of the strategic choice of marketing strategy will be discussed in the next chapter of segmentation, target marketing and positioning.

Organizational structure

A final word is most appropriate for global companies. The issue of structure has not been addressed as it is presumed that global companies need to have the structure to cover the world. A common phenomenon seen happening in many organizations, is the flattening of organization. By flattening, it means reducing the management levels in an organization, and a major advantage of this is that it allows decision making to be made at a lower level. This can quicken the decision making process as information do not need to travel through as many layers of management, and as a result, organizations can respond faster to changes in the market. The responses can be made in response to changes in competition, customer requests, customer complaints, etc. However, in implementing this, employees must be adequately trained so that the optimal decision is made at each level. Employees, even at the lowest level, are empowered and entrusted to make decisions intelligently. Besides being able to respond quickly, it frees managers of their time, so that they can focus on more important issues. Due to the emphasis on employee expectations, human resource development plays a critical role in achieving this, as it is the function that recruits and trains employees of an organization. Human resource department is also the department that makes human resource policies that can either motivate or discourage the employees, resulting in the staff turnover rate in the organization. High staff turnover would mean a loss of knowledge as employees depart, they leave with the accumulated knowledge of products, customers, competition, etc., and this can delay the objective of becoming a flatter organization. Finally, with all the changes happening around us, marketers cannot afford to slacken and must constantly be sensitized to them as this will help organizations in maintaining its relevance in the business and ensure its survival in the global environment.

Chapter - VI

International Human Resource Management

6.1 Multinational enterprise

Throughout the history of the humankind, trade between different tribes, societies and, later, nations have always been a driving force of economic lives through ages, albeit at a different pace and intensity. The Industrial Revolution, which began in the mid of 18th century in England and grew rapidly first through Europe and then spread to the Americas, Asia and the rest of the world, gave international trade an unprecedented boost. In modern time, the advances in telecommunication and information technology (ICT) have rightly been considered as a forth industrial revolution, which has in turn increased the volume of trade between nations. On the other side, the intensifying processes of globalization certainly have reduced or even broken down many trade barriers leading to the same effect. The multinational companies (MNCs) or called otherwise multinational enterprises (MNEs) have played a powerful and dominant role in this process because they are main vehicle by which most goods and services are distributed and purchased around the world. Major MNEs, such as Microsoft, Samsung, Apple, IBM, and Intel, are in the forefront of cutting-edge technology and innovation spending huge amounts of money on research, development and design of their products. MNEs are unique because their operation sites, distribution networks, suppliers, and customer bases are spread across nations beyond their familiar home ground. In order to operate globally, they need to negotiate entry into other countries, adjust their operations to comply with the host country legal requirements, modify their products and services to reflect the religious and other cultural preferences of their foreign customers, and deal with different accounting and taxation systems and trade policies. They also employ people from different parts of the world. The multicultural nature of MNEs' workforces makes their Human Resource Management strategies, policies and practices perhaps one of the most delicate and complicated of all managerial tasks proportionally to their size and geographical reach. A small MNE with a few hundred employees and a customer-base in a handful of neighboring countries has a lot less to worry about compared to an MNE which has subsidiaries in all countries and territories, serves a global customer base, and recruits tens of thousands of employees from many parts of the world. In order to place International Human Resource Management in the context of the MNEs, it is necessary to have an appreciation for the development of the international firm. The following provides a short synthesis of this development process around three issues at the center of international business strategy. All three issues create important perspectives for viewing the development of International Human Resource Management itself and its strategic ties to the MNEs. They are: the degree of internationalization and geographic scope; the basic choices to entry into international business; the extent of global mind-set or global orientation of the executives.

Increasingly for most businesses and in most locations, their strategic decisions involve choices to go international. Often a firm has no choice but to go international either because it is facing competition from foreign firms (push argument) or it seeks cheaper resources or to expand markets abroad (pull argument). Going international strategic decisions obviously affects every function of the organization, including Human Resources. One approach to international business strategy categorizes the degree of internationalization of the firm gradually as follows: (1) international division; (2) multinational or multi -domestic; (3) regional; (4) global; or (5) transnational. The following provides a brief overview of these types of basic strategies that a firm can choose to expand internationally. These choices range from relatively hands-off strategies to full integration into the global economy.

International division

At this stage, a firm makes the initial decision to “go international.” In the beginning, this choice will probably involve only export to and import from foreign customers in one country. The international business activity at this level will have very little impact on the overall business and will not receive much management attention. In recent years, this level of strategic involvement has extended beyond concerns for finding new markets or cheap materials to licensing and subcontracting of manufacturing and sourcing of manufacturing inputs, in order to meet rising cost pressures caused by increased global competition.

When foreign sales reach approximately over 20% of total revenues, or global sourcing reaches an equivalent level of impact, firms often choose to form international divisions that will be responsible for all international operations. Many service-oriented businesses begin at this stage, with a significant number of stores or offices or service centers established in one or more foreign countries. Under this strategy, the MNE will begin to consider local foreign assembly and, eventually, complete manufacturing of its products and/or services, either for sale in the foreign country or for export back home or to other foreign markets. This division may initially be located within the marketing function; but as sales and involvement increase, it may become an independent division, equivalent to domestic product or regional divisions and with little integration with the domestic operations. At this level of development, the international responsibilities of the Human Resource department expand dramatically and become much more complex. The Human Resource department will need to involve with development of Human Resource Management policies, practices, and decisions for the foreign operations.

Multi-country/multi-domestic

At this level of international strategy, a firm decides to establish subsidiaries in multiple countries typically operating independently within each country, independently of operations in other countries, and even independently of operation in the parent-company headquarters. This is referred to as a "multi-domestic" strategy. In this strategy the organization's operations in a number of countries may reach such size and importance that there is increased need for integration with corporate headquarters. The firm may develop global product divisions that provide global coordination of finance, Human Resource Management, marketing, research and development. Or the MNE may organize into major country subsidiaries with regional headquarters to coordinate operations on a regional basis. At this level of international strategy, the MNE will have significant operations in many countries and may well reach the condition where a majority of its sales and employment is in foreign countries. Key personnel in the subsidiaries and regional offices are usually from the home office with many decisions made at corporate headquarters. Thus, although the subsidiaries are largely staffed by people from the countries in which they are located, managers from the home office may retain authority in key areas. The MNE at this level of development views each national market as a specialized market for its particular products. The Human Resource department's role at this stage becomes even more complex and difficult. Human Resource Management must not only provide services such as relocation, compensation, and benefits for often hundreds of employees (international assignees) working in foreign (to them) locations but it must also coordinate the Human Resource Management activities and practices of the many subsidiaries, seeking both consistency with the culture and policies of the parent company and accommodation of local values and practices. In addition, training will increase dramatically for international assignees (from the parent company or from foreign locales), local nationals, and parent-company employees to handle foreign assignments and interaction with foreign counterparts.

Regionalization

In an alternative to the multi-domestic strategy, a firm may to conduct its international business on a regional basis. This will probably involve organizing to conduct business in only one or two regions. This essentially may be due to learning that a multi-domestic strategy was inefficient. The Human Resource Management impacts here are similar to those in the previous strategy, although they will be managed from a regional headquarters. This strategy is based on assumption that countries within a given region share some common characteristics such as culture, geographical proximity or stage of economic development.

The global firm

Many MNEs have reached the state where their operations are becoming blind to national borders. Even though most businesses still organize on a regional basis and adaptation to local customer preferences may still be necessary, products and services are increasingly designed for and marketed to customers all over the world. This is particularly true for industrial products, that is, for products sold from business to business. Best technology and innovative ideas are sought everywhere and applied throughout the world. Products and services are created where costs are the lowest, time to delivery is the shortest, and delivered wherever demand is sufficient. And resources are sought from wherever the best quality for cost can be found. These firms are increasingly referred to as global. Reaching this stage of development is not merely a matter of size or experience in internationalization. Sometimes it is a reflection of the nature of the pressures of the particular industry, but often, it reflects a purposeful, strategic decision to go global. The experiences of global MNEs suggest that running a global company is much more complicated than managing a multinational or international firm. The global corporation looks at the world as one market. It manufactures, conducts research, and raises capital and purchases supplies wherever it can do best. It keeps in touch with technology and market trends all around the world. National boundaries and regulations tend to be irrelevant and corporate headquarters might be located anywhere.

At this level of development, the role of Human Resource department must change. Employees are hired everywhere in the world, where the necessary skills, training, and experience can be found. Worldwide Human Resource policies are developed and implemented based on practices followed in numerous places around the world. Managerial promotions will require international experience and managers will be developed from all major countries or regions of operation. This usually means fewer expatriates in local subsidiaries, an increased use of third country nationals, and broader-based multinational composition of corporate boards and top management and technical teams. And in most firms this means trying to develop or maintain an international corporate culture that transcends national boundaries and cultures. Key employees need to be multilingual, experienced in a number of countries, and culturally sensitive and their countries of origin make little or no difference. When Human Resource managers develop the ability to operate effectively at this level of globalization, they and their departments will have become global.

Transnational firm

Decades ago, Bartlett and Ghoshal suggested that many firms were evolving into a new form of international business that they termed transnational. Transnational firm has a global focus similar to the global firm. But rather than developing global products and services, the transnational works hard to localize, to be seen, not as a global firm, but as a local firm, albeit drawing upon global expertise, technology, and resources. Also, the difference between multinational/ multi-domestic and global/transnational firms is significant. In the multinational company, free-standing subsidiaries or stand-alone foreign operations may be so loosely affiliated that valuable opportunities for economies of scale, joint marketing efforts, or shared technology across national boundaries and innovations in form of product ideas may be lost. The MNE philosophy of primarily staffing with locals sounds reasonable, especially when operating at different locales. But then a firm may well lose the input of talented individuals with different backgrounds and perspectives on products, services, organizational and management practices, international markets needs and limit its ability to learn, innovate, and adapt skills critical to success in a global economy. This may limit the firm’s awareness of new technologies and product ideas enough so as to create a definite competitive disadvantage relative to global competitors. Such diverse perspectives are also important to International Human Resource Management, bringing multiple viewpoints and experiences to bear on Human Resource problems in the parent company as well as in the foreign subsidiaries and partnerships. At this stage of international development of the transnational firm, the salient Human Resource Management question may be how to manage the complex, national (and cultural) diversity at this level of global business activity. When integration is needed in joint ventures and in the development of global workforces, cultural diversity needs to be valued and utilized while minimizing its negative impacts. But when cultural diversity is needed to differentiate products and services to meet the needs of local markets, other corporate practices and organizational designs are required. The concern with the conflicting pressures for centralization versus localization will arise as various aspects of International Human Resource Management are discussed. It is the nature and the importance of national and organizational culture, which lies at the base of these conflicting pressures.

One aspect of international business strategy involves the orientation of senior executives, usually referred to in terms such as ethnocentrism, regiocentrism, polycentrism, and geocentrism. The key strategic issue in these orientations is the degree of domination of the MNE headquarters over subsidiary management and Human Resource practices as compared with the degree of integration of subsidiary practices and cultures into those of headquarters and other subsidiaries. Normally these orientations are explained in the context of progressive development over time from one mind-set to another, as firm develops greater international experience and sophistication.

Ethnocentrism

The initial orientation of many managers, especially those coming from homogeneous nations and culture or from a country with a strong patriotic culture, is ethnocentrism. In this orientation, managers use a home-country standard as a reference in managing international activities. Managers with such a mind-set are likely to follow an international strategy of making decisions and maintaining control from the home-country and parent-firm headquarters, and replicating home-country systems and procedures and structure abroad.

Polycentrism or regiocentrism

The next level of evolution of the managerial orientation is referred to as polycentrism or regiocentrism. Here, as international investment and involvement increase, the host-country culture and practices assume increased salience. This may be extended to include a number of similar countries in the region, and host-country standards are increasingly used as reference point in managing company operations. The strategies typically followed are multinational (or multi-domestic) strategies that emphasize decentralized and autonomous operations of subsidiaries.

Geocentrism

When a firm reaches the level of global orientation, a geocentric mind-set will be developed and adopted. Here the managerial outlook is creating a global network and a preference for following a transnational strategy that is integrative and interdependent among various elements of the global organization. Human Resource policies and practices would be as centralized or decentralized as the overall strategic mind-set of the firm. That is, in firms with an ethnocentric orientation, Human Resource practices for international operations tend to copy parent company practices and are very centralized. In firms with a polycentric mind-set, Human Resource practices tend to be decentralized and local subsidiaries tend to be left alone to follow local Human Resource practice. And in firms with a geocentric orientation, Human Resource practices tend to be more eclectic, borrowing best practices from around the world, rather than giving preference necessarily to either headquarters or local practices.

6.2 International planning and staffing

Availability of data

One of the major constraints for MNE workforce planning on a global scale is the lack of accurate data about the nature of the labor force, particularly in less developed countries. Ideally, data such as labor force participation rates, levels of education and literacy, availability of skill training, and unemployment rates, by country and metropolitan areas would be available to help international Human Resource department plan for local workforces. Usually these data are developed by national government or international agencies, such as the International Labor Organization (ILO) or Organization for Economic Cooperation and Development (OECD). For example, the female participation rates can inform international Human Resource department of the possibilities for tapping into the female labor force in any particular locale. However this data tells nothing about the types of jobs women perform in an economy or culture or their general levels of education and training. Even the data provided might be inadequate, inaccurate, and/or politically motivated so international Human Resource departments are unable decide on hire local people with the necessary skills and education or to develop them elsewhere to staff planned operations. This usually implies that international Human Resource professionals must develop these data from independent sources. In less developed region there are inadequate efforts, by national or local consultants, to provide such information and basic data can be accessed from sources such as chambers of commerce, embassies, non-governmental organizations that, among others, support foreign companies in local employee sourcing. In addition, international Human Resource Management staff can acquire some of the perspective, if not specific information, they need from other foreign companies that have prior experience in the particular foreign locale.

Developed and less developed countries

The most important issue for developed countries is the significance reduced birth rates and resultant aging populations. In virtually all developed countries, there are more people retiring than available to fill the resulting open positions. For example, Japan has almost a third of its population beyond their retirement age, and at the other end. The direct result of this is a labor shortage in the developed countries which is particularly acute for top positions that require high levels of education and expertise. This leads to long lead times, often months or even years, to fill open positions. The problem is more severe when it comes to the jobs at the low end of the economy. Employers have reacted to this shortage in many ways, hiring immigrants and foreign employees, moving jobs offshore, outsourcing work, subcontracting to retirees, using the ICT for management and control and robots and computers to perform work, etc.

The labor markets in less developed countries tend to be almost on the opposite side. In most developing countries, at least now, the populations are very young with resultant labor surpluses and high unemployment rates, particularly in case of unskilled or semiskilled workers. Even so, in these countries, particularly the highly populated ones, there are large numbers of individuals with higher education who are attractive to global firms from developed countries. When companies want a foothold in a developing country, they need to research labor costs, cultural differences, benefits, legal jurisdiction, and local employment practice. In addition, firms need to carefully examine the role of government and trade unions in contracts enforcement. It falls upon international Human Resource departments to forestall labor problems and to provide information to senior executives on the costs of dealing with such issues identified above.

Increasing diversity and mobility

One of the results of progressing globalization and available technology and is that education and skills are increasingly available from almost everywhere, making potential employees available from all racial, ethnic background; religion and nationality origins. This has the impact on dramatically increasing the level of workforce diversity.

The world is experiencing emigration and immigration on an un-precedented scale, on a voluntary or coercive basis. In either case, it is creating mobility of workers in such a large scale and must be taken into consideration by MNEs in an effort to hire their global workforce. Millions of people work outside their home countries, either as traditional expatriates or hired to emigrate to fill vacant positions in other countries. Majority part of those people leave home for other countries in a bid to find better jobs or to seek international experience, and many never return. A majority part of them are forced from their homes because of civil unrest or natural disasters and become permanent refugees. European Union treaties facilitating the regional trade and also the free movement of labor between member states, allow people to seek the best possible work opportunities, put together high-quality workforces by drawing on talent from throughout the EU, and to eventually level the wage and benefit across the member states of the treaty area.

Brain drain and job exporting

One of the major problems in the increasingly mobile labor force that many developing countries refer to, as a brain drain, as their skilled workers leave for better paying jobs in developed countries. An alternative to this brain drain, and one that is increasingly pursued by many global firms, is to export the work and jobs of the firms of the developed countries to the foreign employee in his or her home country. Both sides can benefit from this arrangement: the firm gets top talent at a lower cost and the developing country gets to hold on to its top talent. In summary, today's typical MNE, with operations in dozens of countries, has a workforce that spans the globe. The task of international Human Resource professionals in these firms is to facilitate the hiring of a competent, high-performing workforce that enables sustainable, competitive advantage throughout the global marketplace. Planning for and hiring such a workforce is a complex activity, involving determining what skills are needed and figuring out where to find and how to recruit them. This is difficult enough for local hires for local operations. But it is even more difficult for talent that is in short supply and must be recruited from a global labor market. Technology, particularly ICT, may come at help but not at ease to those planning and management activities. The global labor market and the need for global Human Resource planning by MNEs can be exceedingly complex. And yet the health of today's MNEs is a function of international Human Resource Management's ability to match their firms' workforce forecast with the supply of global talent.

Staffing of MNEs has typically been simplistically described as involving three different types of international employee: parent-country nationals (PCNs), host-country nationals (HCNs), or third-country nationals (TCNs).

Categories of international employees

Most of the attention of international Human Resource, both professionals and academics, has concerned with PCNs, who are typically defined as citizens of the country of the headquarters of the MNE and employed in the country of its headquarters. When such employees are transferred for an assignment to another country, to work in a foreign subsidiary or other type of operation, such as a joint venture or alliance of the MNE for more than one year, they are generally referred to as expatriates. When they return home, they are referred to as repatriates. The second generic type of international employees are HCNs, defined as citizens of the country of a foreign subsidiary or joint venture who are hired to work there in their home country. If they are relocated to the headquarters of the parent firm, they are generally referred to as inpatriates (although they are probably viewed as expatriates from their home country). And when an MNE hires a citizen of a country other than the parent country or the country of the subsidiary, this person is referred to as a TCN (third-country national). In contrast to the literature on PCNs and expatriates, there has been very little published literature on HCNs or TCNs. Interestingly MNEs are starting to devote more time to the strategic role of HCNs. A significant amount of time at Human Resource professional conferences deals with HCNs and TCNs since they continue to be of importance to the staffing of MNE in foreign operations in a trend that most of MNEs such as Microsoft, Siemens and Morgan Stanley are deciding to offshore works from their domestic operations to locations in developing countries. In these locations MNEs can find highly skilled and educated employees at much more reasonable costs. Those works embrace following categories of international assignment:

- CEO-director or general manager of a foreign subsidiary.
- Structure reproducer-to duplicate the domestic operation in foreign locales.
- Troubleshooter-to solve business or personnel problems.
- Operative-to perform functional tasks, usually as a supervisor.

Others have used these or similar categories, also based on the purpose or role of the international assignee:

- Top managers-general manager, director general.
- Middle managers-chief accountant, sales manager, manufacturing manager.
- Business establishers-to transfer technology or start up a business.
- Project employees-to roll out new product or establish new procedures.
- Research and development-to design new product.

Options for global staffing

Domestic internationalists

These are domestic employees whose jobs entail frequent interaction with people in other countries, via telephone, e-mail, fax, or even traditional mail, but who never leave home. These contacts could involve sales, procurement, or banking with people or businesses that are located outside the home country of the firm. These types of employees may be present in any firm with business in more than one country.

International commuters

These are people who typically live and do most of their work in their home countries but regularly commute to specific foreign locales to perform result or some aspect of their work. Such foreign visits are always very short term but frequent. Or, the commuter may stay at the foreign locale for extended visits but commute home frequently, even every weekend.

Employees on business trips

These international employees (IEs) take international trips that last a few weeks or months at a time. They involve, for example, trips for negotiations, to check up on deals, to work with development teams, to work with staff in multiple countries, etc. These trips are ad hoc in that they involve nonrecurring business needs and parent-company managers and technicians, employees from regional headquarters or even foreign subsidiaries.

Assignees on short-term foreign postings

These are assignments that last less than one year and are increasingly used as substitute for more expensive longer-term international assignments. Employees on these types of assignments can be HCNs, PCNs, or TCNs and could be referred to as expatriates, inpatriates, or international transferees, depending on which direction, relative to the parent firm, they are relocating, although normally the term expatriate is used for individuals who relocate for a period longer than one year. These assignments are usually used for technology transfer or to establish new operations, or for management development purpose to help increase the global mind-set among employees or to teach the global culture of the firm. Short-term assignments are concentrated in the high-tech, pharmaceutical, healthcare sectors. Normally, these short-term assignments do not involve relocation of the employee's family and will not include lavish compensation package.

Assignees on intermediate-term (1-3 years) foreign postings

This is the traditional expatriate normally considered a PCN. Most of the international Human Resource literature is concerned with selection, preparation, compensation, and management of this type of expatriate. These IEs are usually used either to manage foreign operations or for control purposes and are typically concentrated in industrial, agricultural and retail sectors. Increasingly, as well, these types of assignments are used for management development assignments in firms that are concerned about developing a more globally savvy management team. These relocations normally include the IE's family and involve an incentive-based compensation package.

Assignees on long-term (3-5 years) foreign postings

These types of assignments obviously involve major commitments by the parent firm and would normally be managing director assignments for major foreign subsidiaries or to regional headquarters. They include major relocation incentives and involve the relocation of and support for the whole family.

Permanent transferees

Often referred to as localization, this normally refers to the situation where an assignee in previous category (short-term, intermediate-term, and long-term assignment) is converted to permanent local status. These people stay in that locale, usually for the rest of their career with that firm, becoming permanent residents of the foreign country. The major reason for converting assignees to local status is to remove them from very expensive, expatriate compensation and benefit package. Since it is usually the individual's choice to stay in the foreign locale, the person will be treated as other local employees, although it difficult to remove all the expatriate differentials.

Permanent cadre

Organizations with lengthy international experience employ IEs who spend whole careers in overseas assignments. They move from one foreign assignment to another. They may maintain citizenship in a particular country, but in many ways could be viewed as employees with no home country. These employees are referred to as permanent cadre and often receive some form of global compensation and benefit package. Most often, this term is used to describe individuals who make their full careers with a particular MNE. But infrequently, this term is used to refer to individuals who make their careers moving from one foreign assignment to another, but working for many different employers. Many problems related to compensation and benefits arise for international Human Resource professionals in managing these employees, as they move from one country to another.

Local hires

These are the traditional HCNs. There is increasing focus on preparing and relying on local employees as a result of localization strategy. Generally the foreign country wants the foreign investor to employ local citizens as much as possible and the MNE often accepts many business reasons for relying on local hires, as well.

International transferees

This category refers to people who are moved from one foreign subsidiary to another, but who maintain their home base in one of foreign subsidiaries and usually return there after such assignments. This is usually done for development purposes, but not seen as the permanent cadre. Large and global MNEs use these types of assignments to internationalize their local employees to teach them about the international operations and culture of the firm.

Immigrants type A

The traditional TCNs, employees hired either in the country of a subsidiary or as immigrants to that country but who are from a country other than that of the parent firm or of the country of the subsidiary and are employed by the subsidiary. When critical skills are short in a foreign locale, firms often recruit from anywhere and everywhere in order to staff their foreign operations.

Immigrant's type B

People hired by the parent firm, either in-country or as new immigrants, to work in the parent country. Such people could be hired either as short-term hires or as permanent residents. These types of employees, particularly those with technical skills, are of increasing interest in many countries and MNEs and involve many issues for recruiting, selecting, compensating, managing, and relocating and are usually closely controlled by governmental visa requirements.

Internships (temporary immigrants for half to 2 years)

Some employers who are having a hard time finding employees during a tight labor market are resorting to recruiting workers from outside the firm's home country. Such a tactic is viewed as a way to recruit highly skilled workers and to screen them for potential full-time employment, but first to fill a job need on a temporary basis.

Returnees

These are emigrants who are hired or selected to return to their home countries. These types of assignees are possibly recent college graduates who have attended college in the country of the parent firm and who are recruited before or shortly after graduation but solely for the purpose of assigning them to a position in their home countries. Sometimes these individuals are longer-term immigrants who are recruited because of an assumption that their familiarity with their country of origin coupled with experience after emigration with business practices in the country of the hiring firm will make them well suited to establish or manage subsidiary operations back in their countries of origin. Sometimes such emigrants seek the opportunity to return, to be involved in the development of their home countries.

Second-generation expatriates

This term is being applied to naturalized citizens who are sent on foreign assignments, but to other than their countries of origin. They are seen as having had the expatriate experience so they may be more culturally competent and, thus, be more likely to adapt effectively to a new culture and more effective in a foreign assignment than people who have not had such experiences.

Just-in-time

These people are recruited from inside or outside the company. They are recruited only (and just) when the need arises, are hired because they possess the specific skills needed by the foreign assignment, and are placed on a contract just for the duration of that assignment. They receive no preparation and get no long-term commitment from the firm.

Reward or punishment assignees

A reward assignment is one in which an individual who is fairly late in his or her career and approaching retirement is sent on a desirable foreign assignment as a way to end his/her career in an enjoyable position and to add to his/her pension basis because of the increased expatriate salary. A punishment assignment is used to get rid of an individual for a while. This can be done by sending the individual to a hardship assignment or locale or just to a foreign location, away from the parent firm. This may be done for individuals who are for some reason protected or vested in the firm and cannot be terminated yet for some reason they cannot be retained in their present position. This may be done, also, in firms that do not value highly their foreign operations or the specific locale to which punished employee is being sent.

Outsourced employees

This is a situation where the MNE decides to pay someone else for the services of an employee or group of employees. These people could be traditional temporaries hired from an agency, leased or rented managers or specialists, or a whole task or project outsourced to an external firm.

Virtual international employees (IEs)

This is a situation where all or most of the work is performed across borders via electronic media: teleconferences, e-mail, telephone, video-conferences, fax, etc. The parties don't meet face to face, at least not on a regular basis. In this context, it refers to situations where the parties who work together are located in two or more countries or in different cities within one country.

Individuals on self-initiated foreign work experience (SFE)

This term refers to individuals who travel abroad, but who may seek work as they travel. The reasons for such travel may differ from region to region and such SFEs may be similar to but yet significantly different from traditional expatriates, in nature of their assignments and in their treatment on international Human Resource issues, such as compensation and benefits.

Retirees

Some firms are tapping into their retirees for short-term foreign assignments, which can provide a new source of experienced employees for international projects and who may be willing to accept foreign assignments with reduced expatriate compensation packages.

From a strategic and international point of view, international Human Resource Manager must consider in its global workforce planning that the number of regular employees with international components in their jobs are increasing. This includes sales and service people who deal with foreign customers, purchasing agents who buy materials or products in the international marketplace, financial managers who deal with foreign investors and bankers, etc. The rest of employees who need never leave home to visit foreign locales are the most to be included in international Human Resource Management plans related to staffing, training, compensation, and benefits programs in new global context.

Staffing with international assignees

Staffing with international assignees (IAs) in MNEs normally includes expatriates, repatriates, inpatriates, host-country nationals, and third-country nationals but mostly it refers to expatriates. Staffing includes procedures and criteria for selection and many challenges that MNEs confront in their efforts to ensure that their global operations are staffed with effective and successful international assignees.

Expatriation is a process of moving people from the parent headquarters to foreign subsidiaries in overseas operations. But expatriation might better be viewed as the process of moving from one country to another while being employed in the same firm. At any particular location in the global firm, an individual manager may be a TCN and still be an expatriate from another country who is employed by and represents the parent company. Or she or he may be a transferee from one subsidiary to another. For these and other reasons, most large MNEs refer to their traditional expatriates as IAs who are on an international assignment for more than one year.

Selection decisions

The selection decision is important and needs full management attention and support. Less thoughtful selection can negatively impact on the success of overseas operations. Because of the nature of most overseas assignments, selections for international transfer are most successful when based on factors following:

- The maturity of the candidate (self-starter, independent decision making, emotional stability, sensitivity, well-rounded knowledge of on- and off-the-job subjects and contacts).
- Ability to handle foreign languages.
- Favorable outlook on the international assignment.

- Appropriate personal traits (health, desire, balance between career and family, resourcefulness, adaptability).

Criteria for selection

The specific criteria MNE uses to select its IAs have a lot to do with their future success in the foreign assignment. This section takes a look at a number of diverse criteria used by various firms to select their IAs.

- Job suitability. Most MNEs base their choices for foreign assignments on the candidates' technical expertise or job competencies to perform the target job requirements.
- Cultural adaptability. Cultural adaptability is at least as important to the successful completion of an overseas assignment as is the mentioned individual's technical ability. Expatriates must be able to adjust to new environments, accept new cultures while effectively delivering their expertise.
- Desire for foreign assignment. Since adaptation to the foreign culture is so important to an IA's performance, his or her desire and willingness to take on that foreign assignment is critical to adjust to new environment.
- Profiles of a successful IA. These profiles are used to screen potential IA candidates, on the assumption that candidates with similar profiles are more likely to perform well in the international assignment. These profiles usually include experience, education, personal interests and activities, flexibility, family situation, and desire for such an assignment.

Process of selection

Different organizations rely on differing selection procedures for foreign assignments. They rely on varying criteria, as summarized above. And they use one or more of the following IAs selection methods that are not much different than the methods used in domestic staffing decisions. However, the differences lie in the impact of culture on how these procedures are applied and in the focus in each of procedures.

- Interviews with IA and even with spouse/partner. Interviews are done by representative of the home office, and representative of the foreign office, and global culture expert who will assess the candidate's and family's ability to adjust to the foreign culture.
- Formal assessment. There are a number of instruments designed by industrial psychologists that primarily evaluate a candidate's

personal traits found to be important to successful foreign cultural adjustment, such as adaptability, flexibility, proclivity for new experiences, and good interpersonal skills. International Human Resource manager and other managers need to make sure in advance about the validity of such instruments before use.

- Committee decision. In many large MNEs, the process of selecting individuals for overseas assignments is carried out by committee decision made up of someone from corporate Human Resource department, local Human Resource department, local manager, director of development, functional manager with a decision based on the individual’s preferences, assessment of past performance and future potential, needs of the foreign assignment, and developmental needs of the individual candidate.
- Career planning. The choice of IA must be made as one step in the individual’s career advancement with the MNE.
- Self-selection. Many MNEs use some combination of above procedures but to some extent, may rely on candidate’s self-selection. In particular, the MNE is interested in candidates taking the time and usually using some formal self-assessment instrument to look at the issues involved with relocation to a foreign country and assessing whether they think they are ready and have the necessary skills, experience, attitudes to succeed in the overseas assignment.
- Internal job posting and individual bid usually combined with interviews and other assessment instruments.
- Recommendations from senior executives or line managers with overseas Human Resource needs.
- Assessment centers. A few organizations have used assessment centers as a tool for evaluating candidates’ suitability for foreign assignments. But it is rare for MNEs to use assessment centers to adequately revise the impact of culture on everything from the nature of the exercises to the cultural sensitivities to assess candidate for an international assignment.

Failure and success in expatriation

The firm must select managers who, with their families, will be most able to adapt overseas and who also possess the necessary expertise to get the job done there. Many firms that lack experience in international operations, as they try to increase their foreign sales, overlook the importance of the local cultural variations. This attitude, combined with inclinations to choose IAs because of their technical abilities, generally leads to failure in the foreign assignment with premature return to the parent company and country as success or failure for expatriates is usually defined in terms of early return to the home country. But success or failure might also be defined in terms of poor overall performance in the foreign assignment, personal dissatisfaction, lack of adjustment to local conditions, lack of acceptance by local nationals, or the inability to identify and train a local successor. All of these can be important to international Human Resource managers in planning the selection, preparation, and placement of expatriates.

MNEs typically do a number of things that lead to choosing the wrong IA, who is likely to fail in his or her overseas assignment. These include:

- Decision to relocate someone made with too little lead time.
- Spouse/partner is not included in the decision to relocate.
- Spouse/partner and kids not allowed on pre-assignment visit.
- Spouse/partner and kids not allowed language lessons.
- Spouse/partner and kids don't receive cultural training.
- Spouse/partner receives no counseling on jobs and other options.

Expatriation success is the opposite side of the issue of expatriate failure.

Typically, expatriate success is defined as:

1) Completion of the foreign assignment as defined at the beginning
2) Cross-cultural adjustment
3) Good performance of the job while on the foreign assignment.

Sometimes these determinants are viewed as a unitary construct to define a successful assignment. In addition, researchers point out to more specific key factors such as the foreign environment in terms of company and national culture's practices, local management, technical skills, and expatriate personal characteristics that ultimately play important roles in expatriate success.

Challenges to the successful selection of IAs

There are many challenges to MNEs in their quests to select the best for international assignments. Here are 9 issues to consider: language culture, gender, family, lifestyle, localization, career development, costs, and candidate pools.

Language: One of the issues with both IAs and local workforces concerns the language. Does IA on foreign assignment need to learn the local language? Do local workforces need to learn the language of the parent firm? Is English is totally enough?

Cultural translator: In situations where there is frequent interaction between headquarters and its foreign operations, the risk for mistakes, misunderstandings, and disagreements can be huge. Partially there is a need for a language and cultural translator, that is, someone who can not only translate the words in such interactions, but who can also help both sides understand the cultural implications and nuances in meaning of the written and spoken words.

Gender: Most expatriates are men but gradually the percentage of women on international assignments, has increased significantly. This is due to stereotypes about the acceptance of women in professional or managerial roles as to the realities in the host countries. Other barriers to women receiving international assignments included their dual-career marriages, and popular perception that women are not interested in assignments overseas.

Family: Spouses of IAs are concerned about their own career while following their husbands/wives to the foreign assignments. Yet, potential expatriates are remained with unresolved problems with their adolescent children and dependent parents. Special education needs to be organized for their children.

Lifestyle: MNEs often have to deal with employees who are eligible for foreign assignments but whose lifestyles that may not be acceptable in target foreign locations. This could involve gay or unmarried couples or employees who may live with or are taking care of elderly parents. Or employees' outside-of-work activities very important to them but may not be able to pursue in the host location.

Localization: The expatriates intend to stay for extra period in a foreign assignment and are critical to the success of the foreign operation, and have learned to live like locals, possibly have married and are raising family there, yet still receiving expatriate compensation package. Many MNEs have developed policies to deal with this, but there are still some exceptional situations for those policies to be fully implemented.

Career development: Since it is expected that an overseas assignment is highly developmental, and since many firms now expect managers to have international assignment experience as a critical part of individual's career plan. Many firms may relate the foreign experience to one's career advancement, but expatriates on return to the parent firm are not always given assignments that take advantage of this foreign experience.

Costs of international assignments: Expatriates are expensive, both their direct remuneration (compensation and benefits) and the administration of their relocation. MNEs are dealing even with high costs in short-term assignments and extended business trips. So MNEs are outsourcing the administrative aspects of managing IAs and looking for ways to reduce the compensation incentives and add-ons that make them so expensive. In addition, MNEs can minimize the costs of failed assignments through developing better selection processes consider cultural adaptation as well as technical expertise, better preparation and orientation, better support services, and more language training, for both IAs and their families.

Developing a pool of IA candidates: This will involve early assessment, self-identification of interest and self-assessment for readiness, and early preparation in terms of language, cultural training, and other awareness activities and specific training. With such a pool of qualified candidates available, when needs arise, international Human Resource manager can encourage line managers to rely on this pool to identify candidates for their open positions.

Repatriation and inpatriation

Repatriation is the opposite of expatriation as it involves the move of the IA back to the parent company in home country from foreign assignment. For many expatriates, the move back home is even more difficult than the original move overseas and that problem is generally overlooked in the expatriation process. The overseas experience is generally challenging, exciting and highly developmental for the expatriate. The expatriate is the representative of the parent company and is therefore looked to for perspective, help, and favors. In addition, because the compensation practices of most MNEs reward their expatriates quite well, the expatriate and family typically live quite well in the overseas location, better than at home. If MNE is to reap the benefits of its expatriates' experience while on foreign assignment, it should learn to manage the repatriation process of its IAs in terms of using and sharing their experience effectively within organization. To many domestic line managers, developing international experience and a global mind-set to operate internationally is the problem of executive managers, not their concern. For these reasons, career planning for expatriates needs to begin prior to an overseas assignment. The assignment needs to be part of a larger plan for the firm so that the repatriate can return to a specific position with expectation to explore his or her international experience. One of the solutions is the institution of back-home mentor or sponsor, who is at least partially responsible for looking after the interests and prospects for the expatriate while on assignment, but also an avenue for keeping the expatriate informed about what is going on back home. The sponsor is responsible for the expatriate's career back home and for helping the repatriate locate the next position upon return. In addition, the repatriates and their families often also have trouble readjusting to the home lifestyle. They are changed by foreign experience and must relearn their original culture and lifestyle. Just as MNEs need to provide their expatriates with preparation for the move abroad, so must they prepare their expatriates for the move back home and prepare themselves to use their overseas experiences in their home assignments.

An inpatriate is an employee (HCN or TCN) who is relocated from a foreign subsidiary or IJV to the parent company. This posting is usually for a relatively short period of time and is for the purpose of teaching the subsidiary or IJV employee about the products and culture of the firm from the perspective of headquarters. Or it could be to fill a functional or technical need on a multinational team for a limited period of time. The challenges of selecting and managing inpatriates are basically the same as those for expatriates. All the same issues are still present, such as effectively screening candidates, assessing cultural adjustment ability and technical skills, screening for family problems, schooling for children, housing needs, language, etc. Supporting services and cultural orientation and preparation are just as important to the inpatriate's successful adjustment as they are for the expatriates.

Host-country nationals and third-country nationals

Staff the subsidiary with local, host-country nationals (HCNs) is the responsibility of international Human Resource manager. In case where strategic decision has been made to locate a subsidiary in a country where local population lacks necessary education or training, then international Human Resource Manager must develop training program for local work force or hiring TCNs.

The expensive expatriate failure problem and general trending toward geocentrism as a truly global approach toward international business have resulted in a greater reliance on local managers in foreign operations. Foreign nationals already know the local language and culture and do not require huge relocation expenditures. In addition, host-country governments tend to look favorably on or require a greater degree of development and use of local personnel. On the negative side, however, local managers may have an inadequate knowledge of home-office goals and procedures and have difficulty with the parent-company language. Thus the staffing of foreign positions, particularly key managerial and technical ones, is necessarily decided on a case-by-case basis.

TCNs tend to be used particularly in areas where there is either a shortage of the necessary type of workers, or where there is relatively free movement of people from one country to another. In recent years, with the global shortage of people with skills in information and computer technology, many MNEs have relied on the hiring of people from third countries with these skills to fill positions in their foreign subsidiaries. Of course, the movement of workers will be driven by the growing gap between the world's supplies of labor and the demand for it. While much of the world's skilled and unskilled workforce are being produced in the developing world, most of the well-paid jobs are being generated in industrialized nations.

6.3 International training and development

When enterprises operate many subsidiaries and are in strategic alliance overseas, the training of their global workforce takes on special importance and difficulty. Many international Human Resource professionals simply try to apply successful training programs from headquarters. Under the best of circumstances, the provision of training programs, particularly those seemingly nebulous as cross-cultural training, are controversial among top executives. When competition is strong and there is heavy pressure to cut costs to survive in global market, training budgets are often among the first areas to be cut irrespective of the importance of maintaining a highly skilled workforce, particularly in the high-tech sector. Nevertheless, since human capital is the most important source of MNEs' competitive advantage, a well-trained and educated workforce is critical to success in the global marketplace. Therefore, the following seven imperatives have been suggested as key to global organizational learning and training and development.

- Think globally. That is, a global enterprise must think about and prepare for a presence across the world market.
- Become an equidistant global learning organization. That is, learning from all cultures, anytime, in any manner possible, must be facilitated.
- Focus on the global organization system. That is to break down the departmental division and remove boundaries between countries and those that separate customers and suppliers and other global partners.
- Develop global leadership skills. Global leadership requires competencies different from those needed in domestic marketplace. Those competencies may be acquired through global training and development programs.
- Empower teams to create a global future. Cross-border teams should be increasingly used and empowered to perform critical projects and problem-solving activities. In addition, multinational teams can be a major tool in the development of cross-cultural competencies.
- Make learning a global core competence. MNE needs to become a global learning organization, with learning and development permeates all its roles and activities.
- Regular reinvent global individual and organization. That is, constant self-development must become the cornerstone of strategies for success in today’s highly competitive global economy.

Training in foreign subsidiaries and joint ventures

The types of problems confronting the MNE when it begins to be concerned with the need for local workforce training around the world will include the following:

- Who should deliver training in the foreign subsidiaries and joint ventures? Headquarter trainers? Local trainers? Independent trainers?
- Should the training be delivered in relation to local cultural differences?
- What are the effects of language differences and problems with translation for both written and orally presented materials? Who will be responsible for translation? Headquarters or host-country specialists?

- Should training programs be exported from headquarters or should overseas employees be brought to central or regional training facilities? Can training programs be developed in various locations and made available to everyone?
- Should courses for management development be handled differently than training for host-country and third-country employees?
- Should each subsidiary or joint venture develop its own training in a respect for host country's culture or are there strong reasons to insist on centrally developed training programs?
- How does an MNE adapt a training program in terms of both the content and the method to different countries and cultures?

Cross-cultural issues

The approaches taken by differing MNEs to training of local workforces in their foreign subsidiaries and joint ventures range from total localization, with all training designed and managed at the subsidiary level, to total integration, with all training directed from headquarters and with the goal of full integration with the culture and perspectives of the parent firm. Sometimes, firms face such disappointments because they simply transfer a program devised at HQ straight to another country, without any measure of localization. In many cases, the global training falls flat because it is just completely inappropriate for the particular culture.

Language

There are a number of issues in multinational training that involve language. It is to be decided whether to provide training for the global workforce in a single, common language, or to translate training programs into many languages for the global workforce. Another issue is related to the levels of interaction between employees and the enterprise as well as with external constituencies, such as suppliers, subcontractors, and customers. Even though English has become the primary language in which global business is conducted, it is clear that being able to sell, negotiate, discuss, and manage in local language can improve the likeliness of successful communication and successful business transactions. Training everyone in a common language, usually English has also become popular, at least in much more globalized working environment. To the extent possible, language learning should be presented in the workplace situations, which enhances the training's immediate usefulness. Another area of primary concern relates to the language of the training itself. Global enterprises must make difficult decisions about whether to translate training materials into the languages of the local workforces and whether to provide the training in the language of the local workforce with or without the use of translator. If the decision is taken to provide the training through translators, they need not only the training in the original and the foreign language but also closer familiarity with the nature of the business and special terminology that may not translate easily from one to another language.

National and corporate culture

National and corporate culture influences training in a number of ways. Before setting up a training program in a foreign subsidiary, international Human Resource managers must understand the impact of local culture on the educational process. For instance, in many Asian cultures, the teacher is seen as the expert, who students should respect. Teachers impart knowledge through one way conversation. Students do not ask questions, and teachers do not solicit students' opinions. The atmosphere is formal and respectful toward authority. The US teaching styles are less formal and encourage students share their own opinions, can be ineffective in Asia. It is clear that people from differing cultures and countries are used to differing training and teaching styles. And thus their most comfortable learning approach needs to be considered in the design and delivery of training.

Education levels and forms

One of the reasons that the provision of training to multiple subsidiaries around the world is so complex is because the basic educational infrastructure and people's background varies so much from country to country. The nature of the educational system and the type of education it provides varies significantly; the level, nature, and availability of higher education and vocational education varies considerably; teaching and learning styles vary from culture to culture as well.

Training and preparation of IAs

The first international training responsibility for a Human Resource manager usually involves the training and preparation of IAs and their families. Indeed, for many enterprises starting to develop their international operations this area of training responsibility often receives little attention. Management development programs will typically not involve any international considerations and the training of local workforces stays primarily the concern of local national Human Resource managers. Yet, at some point, the global enterprise usually comes to recognize the importance of training and preparing its expatriates.

Preparation for the international assignment

When it comes to design training for IAs, there are a number of guidelines that seem appropriate. For example, it should be taken into account the influence of the environment in cross-cultural training. The progress in terms of content and pedagogy should be in relation to the knowledge, experience, and competencies of the trainees. In terms of competencies, IAs' training should focus comprehensively on all of the following:

- **Cognitive competency:** Acquisition of knowledge about cultures, including history, economics, politics, business practices, sensitive areas, and family relations.
- **Behavioral competency:** Ability to adapt to diverse conditions, to communicate to deal with human relations in another culture, and to manage stress effectively.
- **Performance competency:** Ability to perform well in the assigned business in another culture, including the appropriate professional skills; to be creative at adaptive while engaging in critical thinking, positional understanding and learning on the job; and to develop support systems for accomplishing the tasks at hand.

At a minimum, training and preparing IAs for international assignments should cover the following topics to facilitate the ever crucial adjustment process:

- **Intercultural business skills:** Negotiation and communications in different countries and cultures.
- **Culture shock management:** Dealing with the stress of adaptation.
- **Lifestyle adjustment:** Dealing with different life conditions and different availability of familiar foods and entertainment.
- **Local customs and etiquette:** Clothing and different behavior patterns and gestures for both genders.
- **Repatriation planning:** Stay in touch with the home office and identify an appropriate assignment prior to repatriating back home.
- **Language learning:** Language should be learned as soon as possible and never too late.

In the broader picture, many firms divide their preparation of IAs into two categories: counseling and training. The counseling component deals primarily with the dos and don'ts of the process of moving abroad while the training aims to develop skills and sensitivities to cultural issues to better enable IAs to adapt to their new situation. Counseling and training include the following topics:

- **Counseling:** Compensation, benefits, and taxes; housing and property management; local transportation; allowances; vacations and leaves; language training and orientation; and children's educational expenses and options.
- **Training:** Local customs, politics, religions, attitudes; local laws; health and security; cultural sensitivity; background briefing on company's history, policies, individuals.

In addition, it is recommended that a thorough preparation program should include all of the following activities and stuffs:

- Pre-visit to the new site.
- Language training.
- Specific handbooks that include both country and company fast facts.
- In-company counseling on diverse issues.
- Meetings with repatriates who have recently returned from the location.
- Local sponsorship and assistance for arrival to the new locale.

Cross-cultural training

Many IAs and their families face difficulties adjusting to their new, foreign situations. Most of the time, the spouse, usually a wife, has to give up a job, house, friends, and family to accompany her husband on his foreign assignment. The husband may also give up house, friends, and family, but he still has his job and relationships from work at the new assignment. The following summarizes some of the adjustment problems faced by people as they move to a new, unfamiliar, foreign assignment:

- **Routines:** Many of life's established routines have to change in a foreign locale. This disruption takes significant energy and time to combat. And the greater the scope, magnitude, and criticality of the disruptions the more draining and the more depressing they can be.
- **Culture shock:** This is the set of psychological and emotional responses people experience when they lack of knowledge and understanding of the new, foreign culture and the negative consequences that often accompany their inadequate and

inexperienced behavior. The symptoms include frustration, anxiety, anger, and depression.

Training for cross-cultural adjustment should focus on helping IAs and their families do three things:

1) Become aware that behaviors vary across cultures, and work at observing these differences quite carefully.
2) Build a mental map of the new culture to understand why the local people value certain behaviors and ideas and how they be appropriately reproduced.
3) Practice the behaviors to be effective in their overseas assignments.

Global mind-set, competencies and leadership

One of the goals of many international management development programs is to develop a cadre of managers who have what is referred to as a global mind-set. This global mind-set includes sensitivity to multiple cultures and their differences, work and managing experience in multiple countries and throughout the world. Business and life, in general, have been and are being globalized. Few people have much long-term experience working or living with people from other cultures. The result is that few people are familiar with the rules to follow when engaging in business across international borders. And most people assume that the rules they are familiar with and that work well at home should be adequate when they work abroad. Thus, the opportunities for being embarrassed and making mistakes are ever present. Because of this, businesses are increasingly concerned about how to develop managers and employees that exhibit a global mind-set, that is, an ability to think and function effectively in a multicultural world.

Definition of a global mind-set

Knowing how to live and work across cultures is the essential competency of people with a global mind-set. It is the complexity of the professional (strategic) lessons and the transformational quality of the personal (psychological) lessons that leads to broader perspective of those with a global mind-set. A global mind-set means the ability to scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an opportunity to achieve personal, professional, or organizational objectives.

Characteristics of a global mind-set

Global mind-set is a new set of competencies. As a disputable issue, however there is considerable agreement over the characteristics of those who possess global mind-set. Those with a global mind-set exhibit the ability to:

Manage global competitiveness: They have broader business skills to conduct business on a global scale. They demonstrate awareness of national differences, global trends and options, and the global impact of their decisions and choices. These skills provide them with credibility in their various international assignments.

Work and communicate with multiple cultures: They show the ability to interact with people from many cultures with sensitivity to their cultural and language differences. They understand differing cultural contexts and incorporate that understanding in their work and communication styles. And they are willing to revise and expand their understanding as part of their personal growth and professional and development.

Manage global complexity, contradiction, and conflict: They show the ability to manage the complexity, contradictions, and conflict when dealing with multiple countries and cultures. They develop sensitivity to different cultural values; they function effectively in different cultural environments. They consider more variables when solving problems and are not discouraged by adversity.

Manage organizational adaptability: They are able to manage the global corporate culture and adapt it to multiple cultural environments (organization and culture change).

Manage multicultural teams: They are able to effectively manage cross-border and multicultural teams. They value the diversity present in such teams and are able to be a cross-border coach, mentor, coordinator, and mediator of conflict within such teams. They relate well with diverse groups of people and are able to develop the necessary cross-border trust and teamwork toward the effectiveness of team performance.

Manage uncertainty: They are comfortable with ambiguity and patient with evolving issues; they can make decisions in the face of uncertainty and can see patterns and connections within the chaos of global events.

Manage global learning personally (for themselves) and organizationally (for others with whom they work).

Characteristics of organizations with a global mind-set

An organization with a global mind-set is often referred to as geocentric, with a globally integrated business system and with leadership team and workforce having worldwide perspective and approach. It recruits employees for their global and expatriate potential, because all employees must contribute to the global success of the firm, so the whole workforce needs to be globally aware and support the enterprise's global strategy.

Characteristics of managers with a global mind-set

The bottom-line experience that is required for developing a global mind-set is living in another culture and going through the culture shock that is necessary to learning how to accept and to enjoy living in the foreign culture. People who seem able to operate effectively in a global environment are not just described by a list of attributes that are larger in term of knowledge, skills, and abilities than those of people operating in purely domestic environment. Fundamental transformation must take place for globally successful people as they acquire a global mind-set.

Management development in the global enterprise

The key part of development of global enterprises is the development of their managers from an international perspective. It is strongly realized that not only international experience is necessary for parent-country managers, but important also is the development of managerial talent throughout global enterprise. Indeed, the development of a cadre of managers and executives having deep understanding of the global market and having capability to transfer this knowledge into resolute global action. Global companies need executives who can easily switch from one culture to another, people who are fluent in several cultures and languages, and who can work effectively as part of an international team, without conflicts and misunderstandings. To date, too many companies have been slow to become truly culturally global because their key staff-members lack the necessary international exposure, and, therefore, global vision. Many global firms have invested well in the development of their parent-country and host-country's staff. So they can identify competent managers well qualified to handle local operations in every corner of global market and internationally skillful to be attuned to the global strategy. There are heavy costs, big complexity and many other challenges to this process of development of a new breed of global executives in a long run.

In the last few years, a number of management studies have reported on the characteristics, or competencies, of global executives and also in terms of what it takes to develop these competencies. International Human Resource executives responsible for competencies development can learn exactly what is required to creating development programs that can produce global executives.

Global managerial competencies

Open-minded and flexible in thought and tactics

The person is able to live and work in a variety of settings with different types of people and is willing and able to listen to other people, approaches, and ideas.

Cultural interest and sensitivity

The person respects other cultures, people, and points of view; is not arrogant or judgmental; is curious about other people and how they live and work; is interested in differences; enjoys social competency; gets along well with others; is empathetic.

Able to deal with complexity

The person considers many variables in solving a problem; is comfortable with ambiguity and patient in evolving issues; can make decisions in the face of uncertainty; can see patterns and connections; and is willing to take risks.

Resilient, resourceful, optimistic, and energetic

The person responds to a challenge; is not discouraged by adversity; is self-reliant and creative; sees the positive side of things; has a high level of physical and emotional energy; is able to deal with stress.

Honesty and integrity

Authentic, consistent, the person engenders trust.

Stable personal life

The person has developed and maintains stress-resistant personal arrangements, usually family, that support a commitment to work.

Value-added technical or business skills

The person has technical, managerial, or other expertise sufficient to provide his or her credibility.

Management development of global competencies

The management development of global competencies must be multifocal One focus is about what to do to enhance organization’s level of international cultural and business savvy. And a second focus has to do with how to develop the individual manager's level of international cultural and business savvy. But in addition to this, the most important aspects of global management development occur primarily on the job that is through specific experiences that have the capacity to teach the lessons necessary for success of a manager. In the global context, then, those experiences must also include jobs in other countries. Cross-border teams, action learning teams with global membership and global projects, case studies, simulations contribute to the knowledge, and to a lesser extent, to the skills, that managers must develop for competency in the global marketplace. But, in the end, foreign work experiences must be an integral component of any su-ccessful global management development program. In addition, such a program must also include early identification of management potential and cross-cultural potential, as well. Self-assessment and organizational-assessment for global assignment potential and interest should be accessible to all staff members around the world, and serve as a basis to provide as much training as is possible, prior to actual foreign posting.

Cross-national career advancement

One aspect of global management development that needs to be incorporated into any MNE's management development program is the development and promotion of foreign employees through assignment to higher positions in third countries referred to as cross-national career advancement. Those who are cross-nationally promoted are usually at managerial, technical, or professional levels, since those at lower levels have some room for advancement inside the country. Therefore, cross-nationally promoted employees usually assume a managerial position overseas.

Global trends in training and development

International Human Resource departments play important role in delivery of training and management development to the MNEs. Indeed, International Labor Organization, the World Bank, the International Monetary Fund, and the United Nations have focused on the importance of training and development, both for their own organizations and for MNEs, in general. It is helpful to summarize what these organizations' views on the future trends of training and development activities and to combine that with suggestions of international Human Resource Management to use training and development as determinants of MNEs' global success.

- Training will continue as a highly valued activity for building and enhancing the skills required by enterprises and individuals. The progress of the evolution of work requirements toward information society is still evident at all stages in most countries. Many important skills will survive, many will disappear and many will be newly formed.

- Training and development will continue to be essential for enhancing competitive advantage. MNEs understand the importance of training and development and seek to enhance their performance through more sophisticated training and development programs.
- Training in soft skills will grow in importance, including cultural training, customer relations, safety and security, management skills, etc.
- Training in working in new ways and in venues will continue to gain in importance.
- Training will grow in importance in MNEs spanning the globe as workforce development will increasingly become a global undertaking.
- Training will increasingly become re-training as skill sets deteriorate and are reconstituted in new forms. This will also be driven partly by the increasingly rapid technological change and by other factors inherent in the globalization of business.
- Systems of training will have to become increasingly flexible and fluid, responding to the needs of a global economy demanding rapid workforce responses to changing circumstances and product innovations.
- Distance learning will become more common and implemented globally.
- Human capital investment and knowledge management will become the centers of global business strategy.
- New professions will appear and new categories of workers need to be trained. Training will have to respond to the aging and the diversification of the workforce.

6.4 International compensation and performance assessment

Compensation and benefits program

The reason that this area of international Human Resource Management is so complex and controversial is that the compensation invariably differs significantly among countries where MNE has its operations. Employees performing essentially similar jobs in different countries will receive varying salaries and benefits. This is due to differing money's power of purchase and general pay levels of each economy and different valuations for particular job. Thus, it is extremely difficult to develop and maintain a compensation package that attracts and retains qualified expatriates and local managers, given changing exchange rates and varying inflation rates, and is consistent and fair to both expatriates and local employees. In addition, the cost of attracting and maintaining expatriates and an internationals become increasingly high that impact competitiveness of MNEs in the local foreign markets. MNEs usually have different compensation strategies regarding their level and stage of international development. In the early stages of development, the firm's primary involvement will be with a limited number of expatriates sent abroad for a short period of time to market its products, transfer its technology, and provide assistance for local operations. At this stage, compensation concerns are largely limited to providing adequate remuneration and incentives for them. But as the international involvement develops even further, concerns about compensation programs for employees from multiple countries around the world as well as equity among workforces in different global locations present new problems. Therefore, the main objectives of the typical MNE global compensation program include:

- Attraction and retention of employees qualified for foreign assignments (from the perspective of the parent company and subsidiaries).
- Facilitation of staff transfers between foreign affiliates, between foreign affiliates and the parent company usually headquarters.
- Establishment and maintenance of consistent, reasonable and fair treatment and relationship between employees of all affiliates, both at home and abroad in terms of compensation.
- Maintenance of compensation at reasonable level in relation to the practices of competitors to maximize competitiveness to the extent possible.

One of the most important considerations for MNEs in the design of their compensation programs is the problem of comparability. Indeed, despite lavish sum they get, a majority of expatriates are dissatisfied with their compensation in general. It is significantly due to feelings of inequity in their salaries and benefits. The problem of comparability has at least two significant components:

1) Maintaining comparability in salaries and benefits to similar employees in other firms and to peers within the firm for employees who transfer from one country to another with MNEs' structure
2) Maintaining competitive and equitable salaries and benefits among the various operations of the organization.

Just as there are objectives for an overall international compensation program, the component that involves expatriates must also meet certain objectives in order to be effective.

These include

1) Providing an incentive to leave the home country for a foreign assignment.
2) Maintaining a given standard of living at the same time keeping the cost of sustaining expatriates overseas not too high.
3) Taking into consideration career and family needs.
4) Facilitating their return to home country after the foreign assignment is successfully done.

To achieve these objectives, MNEs typically pay a high premium over and beyond base salaries to induce managers to accept overseas assignments.

Types of expatriates and approaches to their compensation

In the past, most MNEs compensated all expats with standard incentives and adjustments. However, firms are realizing that not all expats are alike and do not need to be compensated as though they were all the same. This has led to the development of different programs for different groups and even greater administrative complexity. For the purposes of compensation, there appear to be at least five distinct types of expats.

These include

1) Temporaries (employees who are on short-term assignments, typically less than six months)
2) Young, relatively inexperienced expats (with assignments from six months to five years) who can be compensated and managed similar to local hires
3) Older, experienced expats (relocated for their technical or managerial skills) who are compensated with incentives, add-ons, and adjustments

4) International expats who move from one foreign assignment to another and need to be compensated with a global salary and benefits
5) Permanent expats posted to a foreign country but who stay there for an extended period beyond the normal five-year limit and need to be reclassified as locals.

Each of these types of expats has different needs and can be compensated on different programs. Many MNEs are beginning to recognize these options and are looking for more flexible expat compensation systems to optimize costs.

There are seven basic approaches followed by global enterprises to compensate their expats.

Negotiation/ad HOC

When first few employees are sent on international assignments the common approach to determining pay and benefits for them is ad hoc, or negotiation of a separate and usually unique compensation package for each individual to an overseas posting. As this is the first time and the early stages of going international, because the people, probably the best ones and the assignments are so important, the firm tends to take care of all of their concerns. This approach is quite simple initially, and, given the inexperience of HR managers at this stage and the many complexities in such a compensation package compared with domestic compensation and benefits, it is easy to see why IHR managers follow this approach.

Balance sheet

The approach followed by most MNEs when their international business expands as does the number of expats. At this stage, the firm will realize it needs to develop policy and practice that will apply to all expatriates. The firm will seek a more standard approach and will begin to make policy about what will and what will not be covered. In essence, the balance sheet approach involves an effort by the MNE to ensure that its expatriates are not treated as individuals but are made whole. That is, at a minimum, expats should be no worse off for accepting an overseas assignment. Ideally, the compensation package not only should provide incentive to take the foreign assignment, to remove any worry about compensation issues while on that assignment, and to ensure that the individual and his or her family feel good about having been on the assignment. It is even more complicated, that everything is taking place in an environment that increasingly needs Human Resource costs control, including the costs of expatriation as those are significant to the total cost of MNEs' overall operations and impact greatly on their competitiveness.

Localization

This is a relatively new approach to expat which is being used to address problems of high cost and perceived inequity among staff in foreign subsidiaries. Under localization, expatriates, usually individuals who are early in their career and who are being posted overseas for relatively long-term assignments or are TCNs or are returnees, are paid comparably to local nationals. This can be relatively simple to administer, but since expatriates may come from different standards of living than that experienced by local nationals, special supplements for expats may still have to be negotiated.

Lump sum

Another approach that some MNEs are trying, particularly in response to concern over the perception that the balance sheet intrudes too heavily into expatriates' lifestyle decisions, is the lump sum approach. In this approach the firm determines, sometimes in negotiation with the expat candidate, a total salary for the expat, to cover all the major incentives and adjustments, and then lets the expat determine how to spend it, for example, on housing, transportation, travel, home visits, education, lifestyle, and so forth. This lump sum allowance is a single payment, made at the start of the relocation process, to the transferring expat to cover all of the costs associated with the relocation. Sometimes, the lump sum payment is split between payment at the outset of the assignment and the remainder paid upon successful completion of the assignment as an incentive to perform successfully and to stay with the firm until the end of the assignment.

Cafeteria

An approach which is increasingly being used for very highly salaried expat executives is to provide a set of cafeteria choices of benefits, up to a predetermined monetary limit in value. The advantages accrue to both the firm and to the individual and are primarily related to the tax coverage of benefits and perquisites as compared to cash income. Since the individual doesn't need as much cash, this approach enables the expat to gain benefits such as a company car, insurance, company-provided housing, and the like that do not increase the expat's income for tax purposes.

Regional systems

For expats who are committed to job assignments within a particular region of the world, some firms are developing a regional compensation and benefits system to maintain equity within that region. This is usually seen as a complement to the other approaches. And if such individuals are later moved to another region, their pay will be transferred to one of the other regional systems, depending on what is the approach used there.

Global

A final approach being followed, at least for expats above a certain pay level, is to implement a common global pay and benefits package for each covered job classification applied to everyone in that classification, worldwide. This is often done in recognition of the fact that for many specialized occupations, there is in fact a global labor market, with qualified specialists from all over the world applying for the same jobs.

Current methods for paying expats are being criticized for many different reasons. There is concern that all of these approaches don't adequately take into account the nature of the assignment or the country of assignment and often actually discourage expatriates from assimilating into the local culture. The housing differentials, for example, frequently serve to pay for host-country housing which is likely to be better than that enjoyed by their host-country counterparts, although, as mentioned above, whether that is appropriate or not will depend on the nature of the expat's assignment. Even the continuation of home-based consumption patterns for goods and services does not encourage the cultural awareness so critical to the expatriate's success in the host country. In addition, critics argue, it seems as though the expat compensation systems ought to pay more attention to the differences in perceptions by expatriates and by host-country nationals about issues like the value of money compensation versus other types of perquisites or forms of motivation. A flexible menu of perquisites, traditional incentives and adjustments, and tax reimbursement schedules might well meet some of the criticisms while actually reducing overall costs to the firm.

Taxes on expatriate income

A major determinant of an expatriate's lifestyle abroad can be the amount of money the expatriate must pay in taxes. Employees who move from one country to another are confronted with widely disparate tax systems. And to make things even more difficult, tax rates are constantly changing, often every year. Thus, taxes create one of the most complicated compensation issues for international Human Resource Management, including both income taxes and social security taxes. In addition, social insurance rates and benefits vary dramatically from country to country even more than income tax rates. Expatriates or their firms are responsible for taxes on incomes, this can mean in both their home countries and their host countries. Since typical MNE policies establish that the firm will cover these costs for their expatriates at least any differential over what the expatriate would pay in her or his home country, the use of parent-country expats can be very expensive. The MNE must therefore determine a strategy for dealing with these variances and potentially heavy costs. In countries with lower or higher tax rates, the expatriate's compensation is typically adjusted to reflect that fact, so that a manager being posted to a country with high tax rates would still receive comparable overall compensation to colleague who is posted to country with lower tax rates. In general, MNEs follow one of four strategies: laissez-faire, tax equalization, tax protection, or an ad hoc policy.

Laissez-faire

This approach is uncommon, but smaller employers and those employers just beginning to conduct international business may fall into this category with their taxation policies. In essence, the expatriate is expected to take care of his or her own taxation, even if it means tax obligations in both home and host countries.

Tax equalization

This is the most common approach, since tax rates and obligations vary so much from country to country. Under this strategy, the firm withholds from the expatriate's income the tax obligation in the home country and then pays the taxes in the host country. In essence, the taxes that the expatriate must pay are equalized between home and host countries, with the expatriate obligated only for their home-country taxes. This can be quite expensive if the expatriate is posted to a high-tax country.

Tax protection

Under the tax protection strategy, the employee pays his or her taxes up to the amount that would be owed in the home country, with the employer paying the difference. In essence, the employer pays the expatriate any excess of foreign income tax over the home-country income tax. If the tax rate is less in the foreign assignment, then the employee receives the difference. The employer protects the expatriate against higher foreign taxes.

Ad hoc

Under this strategy, each expatriate is handled differently depending on the individual package s/ he has been able to negotiate with her or his employer. In addition, the typical allowances paid to expatriates are often viewed as taxable income. So the resulting tax bill in both the home and host country can negate financial incentives provided for the expatriate. To compensate, companies usually reimburse their expatriates for the global tax costs in excess of the tax they would have been responsible for, if they had remained at home. The purpose is as with other components in the expatriate compensation package to keep the employee whole. Indeed, a majority of firms provide the following benefits tax-free to their employees on foreign assignment: tax reimbursement payments, international premium, cost-of-living adjustment, housing allowances, car reimbursements for business use, emergency leave, moving expenses, and dependent education.

Major problems in expatriate compensation

It should be obvious by now that international compensation management is more complex than its domestic counterpart. This is at least partially due to the following problems not confronted in domestic compensation management. First, the collection of data about pay rates, benefit packages, government practices, and taxation systems in different countries, and in different languages and cultures, from unfamiliar sources, makes it very difficult to design comparable pay packages for expatriates or for consistency among various overseas operations. Second, pay systems, particularly for expatriates, must contend with government currency controls and constantly changing exchange rates, making it necessary to constantly adjust expatriates' incomes in local currencies. A third issue that adds to the complexity is the varying rates of inflation encountered in foreign locations, that may also require frequent re-adjustment of expatriates' pay rates to counteract the effects of sometimes high inflation rates. Add to this the desire to spread compensation concepts such as incentive pay, bonuses based on firm performance, equity ownership plans to subsidiaries, and the desire to create a common global data base to keep track of all the variances and international compensation gets complicated indeed. When all of this combines with variances in legal systems and in country practices in compensation and benefits, it may be a miracle that MNEs ever satisfy either expats or local workforces.

Purposes and roles of international performance management

The performance management system used in the international arena relates to many areas of international Human Resource Management, such as evaluation international workforce for pay rises. In this section on international performance management (IPM) and compensation they are distinguished as IAs (expatriates) and FMs (foreign managers: TCNs and HCNs) because each has unique characteristics relevant to performance and compensation. The IPM system also plays a particularly important role in performance feedback, individual job assignments, development planning, and identification of training needs. The performance of IAs and other FMs in global firms is critical to the success of the MNEs. However, one of the most serious stumbling blocks to their effective management and development is the frequent lack of recognition of the value of their foreign experience and expatriation, in general, and the informality with which firms often evaluate these IA/FMs' overseas performance. Indeed, large MNEs with many IAs and many foreign subsidiaries report that most do not use any type performance management to measure IAs' success. A firm's performance appraisal system can greatly impact the performance of its workers. Yet conducting valid performance appraisals, even in the home environment, is quite a difficult task. It is even more challenging in international Human Resource Management. The types of skills developed and used in an overseas job are different from those developed and used in the domestic environment. The IAs and other FMs must develop and use the professional competencies necessary for any overseas assignment. But, in addition to these, they must also develop the following competencies:

- Being able to manage an international business and all the complexities that entails.
- Being able to manage a workforce with cultural and subcultural differences.
- Being able to plan for, and conceptualize the dynamics of a complex, multinational environment.
- Being more open-minded about alternative methods for solving problems.
- Being more flexible in dealing with people and systems.
- Understanding and managing the interdependences among MNEs' domestic and foreign operations.

These skills are a natural outgrowth of the increased autonomy that IAs and FMs experience in the international environment. In addition, this autonomy results in a greater impact on the subsidiary's performance than would be possible at that level in the home-country. With increased decision-making responsibilities in the foreign environment, IAs and FMs are typically subjected to a more intense working environment to which they have to adjust fairly completely and quickly. But the often distant evaluators seldom understand these difficulties and tend to not take them into consideration when evaluating IA/FMs. In order for the individual contributor and his/her organization to benefit from this enhanced learning and performance, the organizations must have a way to track and evaluate it and so far they haven't done it so rightly. There are many reasons that the international performance evaluation system doesn't work very well, including:

- Problems with the choice of evaluator and that person's amount of contact with the expatriate.
- There are often considerable differences between headquarters and foreign locales in what is valued in terms of performance and in terms of perceptions of the actual behavior.
- Difficulties with long-distance communication with headquarters, particularly as this relates to performance evaluations, but also majors component in the IAs' and FMs' job activities.
- Inadequate contact between parent-company evaluator and subsidiary evaluatee.
- Inadequate establishment of performance objectives for foreign operations and means for recording levels of individual and organizational performance.
- Parent-country ethnocentrism and lack of understanding of the foreign environment and culture.
- Frequent indifference to the foreign experience of the expatriate and to the importance of the international business, as well.

Organizations develop performance management systems for a number of reasons, but primarily for evaluation and for development. These purposes are much the same for domestic and international operations. The major difference is that implementation of these goals is much more difficult in the global arena. Evaluation goals for performance appraisals in the international environment include:

- To provide feedback to managers so they will know where they stand.
- To develop valid data for pay, promotion, and job assignment decisions.
- To help management in making discharge and retention decisions, and to provide a means of warning employees about unsatisfactory performance.

Development goals for performance appraisals in the international environment include:

- To help managers improve their performance and develop future potential.
- To develop commitment to the company through career opportunities and career planning with the manager.
- To motivate managers via recognition of their efforts.
- To diagnose individual and organizational problems.
- To identify individual training and development needs.

Of course, the nature of the overseas job, the degree of support from and interaction with the parent company, the nature of the overseas environment in which the performance occurs, and the degree of expatriate and family adjustment all impact the ability of any global organization to achieve these objectives.

Challenges to the effectiveness of the IPM system

Given major differences between the domestic and international performance management environments, it is probably to be expected that there will be a number of challenges in implementing the IPM system. Here are some of them as following:

Invalid performance criteria

IAs often receive inappropriate performance appraisals because the performance criteria common in their home countries are often superimposed on to an IA/FM even though they might not make sense in the foreign culture. For instance, the job performance of managers is often measured in terms of profits, rate of return on investment, cash flows, efficiency or input–output ratios, market share, and the like. In addition, many performance appraisal forms use trait-based formats, evaluating items like initiative, judgment, timeliness, friendliness, etc. These sorts of criteria for evaluation may not be as relevant in the foreign setting or given the remoteness of most evaluators and infrequent contact with the expatriate/FM, they are certainly much more difficult to assess. They might be less applicable in many foreign cultures, as well. Even in terms of the business-related criteria, IAs and FMs may have less control over profit levels, because their profits are so heavily influenced by such external factors as exchange rate fluctuations, price controls, depreciation allowances, general overhead charges, and differences in established accounting practices.

Rater competence

When it comes to evaluating an IA/FM's job performance, in the home-country setting, managers are evaluated by bosses with whom they have significant amount of interaction and with whom they work pretty closely. This is typically not the case in the overseas work environment. Parent-company executives who have never worked or lived overseas often complete expatriates' appraisals. Lacking an understanding of the social and business contexts in which the work is performed, these managers have no feel for the unique challenges faced by IAs or FMs. Under these circumstances, the chance of rater error increases significantly.

Rater bias

Even when performance evaluations are made by a host-country manager who better understands the IA and foreign manager's challenges, its validity will not be assured. Individuals from different cultures consistently misinterpret each other's behaviors, possibly biasing the appraisals. At times, these misinterpretations will be based on a preconceived attitude on the part of the rater based on some characteristic of the IA/FM that is not directly related to the performance.

Host environment

The international context, with differing societal, legal, economic, technical, and physical setting, is a major determinant of IA/FM performance. Consequently, IA/FM performance and performance expectations need to be placed within its international as well as organizational contexts. The type of structure in the foreign setting adds another dimension to this concern over the host environment. In many locales, for example, working in a wholly-owned subsidiary will probably be much easier than working in a joint venture with a local partner. Similarly, overseeing the opening of a new office or facility in a foreign country, especially in a developing country or emerging market, will be different than the challenges faced in a more mature operation.

Cultural adjustment

The process of cultural adjustment is a critical determinant of IA job performance and needs to be taken into consideration when evaluating that performance. One of the dilemmas, in terms of IPM, is that adjustment to a foreign culture is multifaceted with individual reactions and behaviors varying according to a number of difficult to assess factors, such as prior experience, local assistance, and degree of preparation and orientation. Thus, determining the relevance of cultural adjustment to the new environment to evaluating IA work performance may be problematical.

Managing the IPM system

MNE can do a number of things to ensure that valid performance evaluations are made in their global operations, or, at least, to increase the likelihood of good results from the IPM system. The following section is an attempt to answer and to cope with the above mentioned challenges.

What criteria should be used for evaluation?

The answer to the question of what should be evaluated for IA/ FMs is indeed complex. They need to meet parent-company standards and they need to do it within the international and local-culture contexts. So the evaluation system needs to take both sets of standards into account. The problem is, criteria and performance expectations are typically defined in the home country but performed in the host country. The cultural norms that define performance in the parent country may not be the same as those considered appropriate in the foreign locale. Criteria for appraisal of IAs and FMs:

- **Qualifications:** Training, experience, technical skills, social and language skills, education.
- **Targets:** Derived from the parent company's objectives; derived from the subsidiary's objectives; derived from local objectives; individually dictated.
- **Attitudes:** Flexibility, interpersonal and communication skills, ability to cope with the stress (culture shock); openness to change.
- **Job performance:** Results; development of local team; communication and decision making; personal growth and development; application of new expertise.

Who should do the evaluation?

Given all the problems in implementing an effective IPM, the issue of who should conduct performance appraisals of IAs and FMs also becomes quite complex. The answer is found in the use of multiple reviewers. These additional reviewers may not all be as directly familiar with the work of the IA/FM, but they may be able to add necessary perspective: peers, subordinates, customers or clients. This is an application of what is referred to as the 360 degree review process that is using reviews from above, below, and beside the candidate, and even using self-review.

Characteristics of effective IPM systems

There are a number of things that can be done to improve the effectiveness of an MNE's IPM system. These include the following:

Relevance: International Human Resource staff needs to ensure that the evaluation criteria and process are relevant to the content and requirements of the job. This involves reviewers having a clear understanding of the unique situation of the foreign job requirements.

Acceptability: The criteria and process used also need to be acceptable to both evaluators and evaluatees. One aspect of this is that the criteria being used need to be in control of the evaluatees. The evaluator needs to objectify the evaluation as much as possible, while considering the realities of the foreign assignment, using input from as many sources as possible, including from the IA/FMs themselves. In addition, the evaluator needs to follow standard procedures and the appraisal results need to be seen, particularly by the evaluatee, as fair and accurate. The appraisal form needs to accommodate special or unique circumstances; the evaluatee needs to receive timely feed-back, the evaluator should suggest how the rate can improve, and the evaluatee should get the necessary resources and training to improve. All in all, the process needs to be seen as fair, reasonable, and accurate.

Sensitivity: An effective IPM system takes into consideration cultural and international business realities. It will include input from people with experience in the particular foreign setting, such as former expatriates. It needs to take into account issues like the operational language of the foreign organization, the cultural distance between the foreign firm and the parent, and the importance of issues like the power of local unions and stability of exchange rates.

Practicality: The last guideline here is that the performance evaluation system needs to be easy to use. If it is either too complex or too difficult to administer, managers will not use it.

All of these characteristics illustrate how important it is for IA/FM evaluators to be trained in the use of international evaluation systems. The effectiveness of an IPM system can be improved, but it requires international Human Resource staff to get involved and to work on implementing the types of characteristics described here. Regardless of the effectiveness or availability of IPM systems, expatriate performance management success depends largely on the manager and expatriate in how well they understand, internalize, and accept performance management, and how skillful they are in its implementation. To this end, appropriate performance management training should be available for all expatriates, including their superiors.

Chapter - VII

International Supply Chain Management

7.1 Supply chain management

7.1.1 From logistics to supply chain management

Supply chain revolution and a related logistical renaissance are two massive shifts in the expectation and practice concerning the performance of business operations. They are highly interrelated, but are significantly different aspects of the contemporary strategic thinking.

Supply Chain (sometimes called the value chain or demand chain) consists of firms collaborating to leverage strategic positioning and to improve overall operating efficiency. For each firm involved, the supply chain relationship reflects strategic choice. A *supply chain strategy* is a kind of channel arrangement based on acknowledged dependency and relationship management. *Supply chain operations* require managerial processes that span across functional areas within individual firms and link trading partners and customers across organizational boundaries.

Supply Chain Management is defined as the integration of activities along the supply chain linking customer orders, distributor orders, inventorial orders, manufacturer orders, supplier orders and ultimately related cash flows.

Logistics means the art of calculation and reasoning, in contrast to supply chain management, it is the work required to move and to position inventory throughout a supply chain. As such, logistics is a subset of and occurs within the broader framework of a supply chain. Logistics with its history of development in the world of more than 5000 years, both in economics and military art and science, is the origin of supply chain management which has been known and become popular for several decades only. The most well-known logistics achievements in ancient time are the pyramids in Egypt and the Great Wall in China, to name a few. Logistics is the process that creates value by timing and positioning inventory; it is the combination of firm's orders management, its inventory, transportation policy, warehousing, materials handling, and packaging as integrated throughout a facility network. Integrated logistics serves to link and synchronize the overall supply chain as one giant continuous process and it is essential for effective supply chain connectivity. While the purpose of logistical work has remained essentially the same over decades, the way the work is performed continues to change radically in parallel with technology development and management innovation. According to the 5 Right conception logistics is the process of delivery the *right* product to the *right* place at the *right* time under the *right* condition and cost for the *right* customer (Douglas *et al*. 1998). According to Martin Christopher (1998) logistics is a process of strategic management of purchasing, transporting, storing materials, spare parts and semi-finished products, products and proper information flow in a company and its distribution channels to optimize profit now and in the future through carrying out all the orders at lowest cost and as fast as possible. According to David Simchi-Levi (2000) logistics system (network, chain) is a group of applied approaches linking suppliers, producers, warehouses, shopping outlets in an effective way for the purpose that goods and services are to be produced (delivered) and distributed in right quantity, right place, at right time in order to minimize cost in the whole system in a response to the needs of customers in terms of their expected level of service.

Logistics management, as has been defined by CLM (*Council of Logistics Management*), refers to the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption for the purpose of conforming to the customer requirements and expectations.

Most of the authors see logistics as the design and operation of the physical, managerial, and informational systems needed to allow goods and services to overcome time and space. Logistics entails planning and controlling of all factors that will have an impact on getting the correct product where it needs to go, on time, and cost-effectively. Superior logistical performance is a primary area in which organizations participating in an integrated supply chain management initiative can make themselves significant improvements. Logistical management is vital not only to manufacturing and assembly industries but also to retailing, transport, and other distribution or service-oriented industries. Owing to intensive competition in global markets, logistical management is considered an important source of competitive advantage. A study done by Council Logistics Management found that world-class firms are more apt to exploit logistics as a core competency than their less advanced competitors in less developed countries. This logic can certainly be extended to all the inter-organizational, cross-boundary and global supply chains. For instance, profe-ssional and strongly competitive German logistics service providers such as DB Schenker, Dachser, Yusen, Ziegler, APL, Ceva, DHL, Kuehne&Nagel are the powerful engines supporting German industry, export, growth and prosperity of German global corporations and Germany as an economic powerhouse in general. This Council Logistics Management study has identified what logistics firms can do to achieve world-class status. Key focus areas include:

- Positioning concerning the selection of strategic approaches to guide logistics operations.
- Integration of internal logistical operating excellence and development of solid supply chain relationships.
- The agility with respect to relevancy, accommodation, and flexibility.
- Measurement of internal and external performance.

Integrated supply chain management will only increase the importance of logistics activities. Supply chain management allows supply chain members to optimize their logistics performance at the inter-organizational level. This means integrated management of the movement (the flow) of materials, spare parts, semi-products or finished products first from the supplier to the next links across the supply chain to the end customer. This represents a major departure from current logistics practices and concepts of many traditional companies, often characterized by independent efforts with limited mutual coordination between organizations. Logistics professionals will continue to be challenged to manage the movement of products across the supply chain in a timely and cost-effective manner that meets customers' service requirements. Meeting this challenge requires a logistics strategy that encompasses the entire supply chain. This overall strategy will be the primary driver for the specific logistics strategy within each of the supply chain member organizations. Distribution networks, transportation modes, carrier surveillance, inventory management, warehousing, order processing, and other related activities need to be addressed. The scope of the logistics strategy is now the entire supply chain, not just each individual unit in the chain. It will no longer be desirable or sensible for each of the supply chain member organizations to manage its logistics activities independently.

As said before, supply chain management is a new concept of management that has gained its popularity since 1980 and the logistics management has been perceived as organization's traditional business or non-business activity since ancient time. Analyzing definitions and essence of both logistics management and supply chain management leads us to many schools of thought related to the issue on relationship between those fields as presented in the following Illustration 1:

a) Logistics management is a part of supply chain management.

b) Supply chain management is a part of logistics management.

c) Supply chain management is strongly and strictly identified with logistics management and vice versa.

d) Supply chain management and logistics management have something in common and something of their own.

From our point of view and in our strong belief, logistics management is part of the supply chain management and supply chain management encompasses all logistics activities of the firms, their partners they cooperate with, the synergy effect of those activities and more.

7.1.2 Supply chain environment

In the last decades, managers have witnessed a period of change unparalleled in the history of the world in terms of advances in technology, globalization of markets, and stabilization or turbulence of world economies. With the increasing number of world-class domestic and foreign competitors, organizations have had to improve and integrate their internal and external processes rapidly in order to stay competitive.

In 1960s and 1970s, companies started developing detailed market strategies focused on creating and capturing customer loyalty. Organizations also realized that strong engineering, design, and manufacturing functions were necessary to support these market requirements. Design engineers had to be able to translate customer needs into product and service specifications, which then had to be massively produced at a high level of quality and sold in a wide scale at a reasonable cost. As the demand for new products escalated in the 1980s, manufacturing organizations were required to become increasingly flexible and responsive to modify existing products and business processes or to develop new ones in order to meet ever-increasing customer needs. In the 1990s, as internal manufacturing capabilities improved, managers realized that material and service inputs from suppliers had a major impact on their organizations' ability to meet customer needs. This led to an increased focus on the supply base and the organization's sourcing strategy. Later on, managers also realized that producing a quality product was not enough. Getting the products to customers when, where, how, and in the quantity that they wanted, in a cost-effective manner, constituted an entirely new type of challenge. The logistics renaissance has been now a really rising trend, spawning a whole set of time-reducing information technologies and logistics networks aimed at meeting these challenges. These are the reasons why companies have to not only strengthen themselves but also take care and pay attention to the partners on their supply and demand side, considering themselves not as a central player but a part of the interrelated network, a linkage of the whole, global value chain.

The rules of business have changed. In today's environment, new products are launched and new businesses are set up every day. Customers are increasingly demanding, very difficult to keep and costly to replace. Companies face intense competition from traditional powerhouses (current competitors) and new players (potential competitors), and must continue to find new revenue opportunities and new way to increase efficiencies in terms of reducing cost. Today more than ever, businesses depend on strategic relations with their customers and suppliers in terms of providing services to create value systems that will enhance competitive edge for all sides in the market. In effect, there is a new network economy that has emerged where companies trade with suppliers and customers over the Internet in real time. The virtual corporation is now a reality, with companies outsourcing a wide range of functions including design, manufacturing, distribution, and others so that they can really focus on their core competencies. However, ensuring a seamless, consistent cooperation with customers and suppliers to create values together requires real-time automation of inter-organizational business processes that span across trading partners worldwide. Traditional business practices, such as e-mail, faxes, and voice mail introduce delays and often require data to be re-entered multiple times due to the total lack or integration. Hence, the need for dynamic business-to-business (B2B) integration that can automate business processes that encompass a diverse range of packaged applications and legacy systems within the corporation and among supply chain members. The ability to develop these B2B relationships and realize their potential in the shortest possible time is critical to the long-term success of any modern business. Indeed, no business can afford not to efficiently automate business processes with trading partners. Businesses are continually forging closer ties with their partners, suppliers and customers. Customers expect to be informed about state of transaction completion, 365 days a year, seven days a week and round the clock. Rather than adding the costly human resource traditionally required to maintain such a level of service, customers now interact directly with company via automated e-mail systems, self-service Web sites and information portals. Companies are empowering their customers to help themselves to their information. Customers not only expect their interaction to be real-time, but also personalized, with information that represents their specific history with the company. In order to meet these demands, businesses must be able to integrate their information systems and applications with those of their suppliers and customers reliably, securely, and timely. Not surprisingly, this has led to a tremendous growth in B2B integration as companies look for ways to automate and accelerate their business processes, responding immediately to customer demands and changing to adapt to market opportunities. E-business integration significantly improves the performance of organization by supporting the key principles of business success:

- Faster to market with new products
- Better service and sales process
- Lower costs (operational, production, and inventory)

However, e-business also adds a significant amount of complexity in terms of security, reliability, fault tolerance, government regulations, etc., not to mention financial resources and time required to integrate and upgrade organization's business applications. Despite all of that, companies are undertaking significant restructuring initiatives to be able to function in the new era of e-commerce. After the initial wave of excitement about e-business, many companies are recognizing that beneath the Web, there still must be a physical distribution and sourcing structure and the supply chain management (SCM) is back in vogue. Supply chain management is concerned with more than just the movement of materials from point A to point B. The goal of supply chain management is the creation of value for the supply chain member organizations with a particular emphasis on the end customer in the supply chain. For this reason, supply chains should be designed and developed to create the maximum value for supply chain members. The need to create a new system of supply chain management has become even more apparent since the events of September 11, 2001. In response to the terrorist attacks, organizations have imposed a number of measures, including deep discounting to sustain profitability, significant downsizing of the workforce, changes in leadership, and even appeals to the federal government to restrict international competition. The impact on many organizations has been predictable: there are fewer people willing to work over time, significant cost pressures, high inventory levels, plant closings, and increasing conflicts between customers and suppliers. In some industries, companies are using the term “deferred commitments” to reflect the fact that they are not willing to purchase agreed-upon forecasted quantities from their suppliers. Some organizations have reverted to the traditional adversarial approach in managing their supply chain relationships, resorting to the unpopular protective and uncooperative measures. However, the recent downturn in the economy has, more than ever, reinforced the need to improve performance across the entire supply chain. In the industries such as automobile, electronics, transportation, industrial equipment and many others, senior executives realize that raising prices is no longer an option, and neither is the possibility of dramatically increasing sales in a flat economy. This leaves only one option: reducing costs across the supply chain. In addition, there is tremendous growth in new markets and emerging economies. These regions will plug into the global economy and will add new dimensions and complexity to supply chains. In the automotive industry, giants like Toyota are moving production to these countries. Trade flow increases will stress supply chains even more, in terms of transportation and warehousing services. The fluctuations of cargo movement, freight costs, warehousing costs and production costs will result in less time to plan logistics processes. Outsourcing remains a mainstay of OEMs (*Original Equipment Manufacturers*) and the 3PLs (*Third Party Logistics*) are assuming more of their customers' workload and responsibilities. Increasing expertise is needed to handle these tasks and deliver the expected service level, which is increasing continually. Customers are also demanding high service level consistently. Companies which use supply chain strategies are more likely to build shareholders' value. Wal-Mart used supply chain to become a low-cost leader; Dell uses supply chain to deliver reliably and JIT (*Just in Time*); Apple refined its products to be able to innovate repeatedly and rapidly; IKEA engage its customers and end-consumers in the process of creating final products (assembly phase) reducing production, transport and distribution cost to minimum.

7.1.3 Supply chain management in organization

The management activities that need to be coordinated within a supply chain vary significantly from firm to firm, depending obviously on particular organizational structure, management's honest differences of opinion about what constitutes logistics, and the importance of individual activities to the logistics operations. Following along the supply chain and noting the important activities that usually take place, according to the Council of Logistics Management these are components, or activities, as to where they are most likely to take place in the supply channel (chain). The list of them is further divided into key and support activities, along with some of the decisions associated with each of the activities (table below).

Table 61: Key and support logistics activities in supply chain

Key activities	Decisions associated
Customer service standards	a) Determine customer needs and wants for logistics customer service
	b) Determine customer response to service
	c) Set customer service levels
Transportation	a) Mode and transport service selection
	b) Freight consolidation
	c) Carrier routing
	d) Vehicle scheduling
	e) Equipment selection
	f) Claims processing
	g) Rate auditing
Inventory management	a) Raw materials and finished goods stocking policies
	b) Short-term sales forecasting
	c) Product mix at stocking points
	d) Number, size, and location of stocking points
	e) Just-in-time, push, and pull strategies
Information flows and order processing	a) Sales order-inventory interface procedures
	b) Order information transmittal methods
	c) Ordering rules
Support activities	**Decisions Associated**
Warehousing	a) Space determination
	b) Stock layout and dock design
	c) Warehouse configuration
	d) Stock placement
Materials handling	a) Equipment selection
	b) Equipment replacement policies
	c) Order-picking procedures
	d) Stock storage and retrieval
Purchasing	a) Supply source selection
	b) Purchase timing
	c) Purchase quantities
Protective packaging	a) Handling
	b) Storage
	c) Protection from loss and damage

Cooperate with production/operations	a)	Specify aggregate quantities
	b)	Sequence and time production output
Information maintenance	a)	Information collection, Storage, and manipulation
	b)	Data analysis
	c)	Control procedures

Source: Own development

Key and support activities are separated because the first activities will generally take place in every logistics channel (hub), whereas the second will take place, depending on the industry or circumstance (case), within a particular firm. Regarding key activities, they either contribute most to the total cost of logistics or are essential to the effective coordination and completion of the logistics task. The key activities are as follow:

Customer servicing standards set the level of output and degree of readiness to which the logistics system must respond. Logistics costs increase in proportion to the level of customer service provided, such that setting the standards for service also affects the logistics costs to support that level of service. Setting very high service requirements can force logistics costs to exceedingly high levels.

Transportation is primary cost-absorbing logistics activities. Experience has shown that it will represent one-half to two-thirds of total logistics costs. It is transportation that adds place value to products and services, whereas inventories add time value. Transportation is essential because no modern firm can operate without providing for the movement of its raw materials, spare parts, semi and/or finished products. This essential nature is underscored by the financial strains placed on many firms by so-called national disasters, such as a national railroad strike or independent truckers' refusal to transport goods because of rate disputes and so on. In these circumstances, markets cannot be served, and products back up in the logistics pipeline to deteriorate or become obsolete.

Inventories are essential to logistics management because it is usually not possible or practical to provide instant production or sure delivery times to customers. They serve as buffers between supply and demand so that needed product availability may be maintained for customers while providing flexibility for production and logistics to seek more efficient methods for manufacturing and distributing the products.

Order processing is the final key activity. Its costs usually are minor compared to transportation or inventory maintenance costs. Nevertheless, order processing is an important element in the total time that it takes for a customer to receive goods or services. It also is the activity that triggers product movement and service delivery.

Support activities, although they may be as critical as the key activities in any particular circumstance, are considered here as contributing to the logistics mission. In addition, one or more of the support activities may not be a part of the logistics activity mix for firms.

Warehousing and materials handling-products such as finished automobiles or commodities such as coal, iron, or gravel that do not need the weather and security protection of warehousing will not require the warehousing activity, even though inventories are maintained. However, warehousing and materials handling are typically conducted wherever products are temporarily halted in their movement to the marketplace.

Protective packaging is a support activity of transportation and inventory, as well as of warehousing and materials handling because it contributes to the efficiency with which these other activities are carried out.

Purchasing and product scheduling often may be considered more a concern of production than of logistics. However, they also affect the overall logistics effort and specifically the efficiency of transportation and inventory management.

Information maintenance supports all other logistics activities in that it provides the needed information for planning and control.

The key objective of supply chain management is to provide customer satisfaction by having the correct product in the correct place at the correct time. As competition worldwide is increasing, creating customer satisfaction is important to most companies. The concept of customer satisfaction has multiple dimensions that contribute to a feeling of overall satisfaction:

- **Cost:** What customers receive for what they paid;
- **Convenience**: The effort expended to achieve the purchase;
- **Confidence:** Trust in the support services both included and promised.

In the age of global markets, supplies, demands and competition, the ability to satisfy and retain customer loyalty is no longer a simple marketing proposition. The back office personnel and operations are equally vital. Firms currently strive to increase competitiveness by providing customization, value for money, quality and service. Customization of the service component may for instance include speed to market or responsiveness to customer enquiries. Consider Amazon.com, which provides books selected from the Internet store and delivered to customer's door within an appointed time period. The marketing proposition is simple and based on convenience. The same product could be purchased from a bookshop. If the back-office operation of Amazon either takes six weeks to deliver the book once ordered, or fails to meet a promised delivery date, then there is high probability that the customer would be dissatisfied. The same applies to FedEx with its delivery next day before 10AM promise. Speed is becoming an important aspect of service provision. McDonald's controls its supplies along the entire length of its supply chain from meat purchasing and paper cups to all franchise outlets worldwide. For major companies operating in global markets, the stakes are high. Managing the global supply chain offers the capability to create and to reach the markets before competitors, and achieve competitive advantage by providing increased customer satisfaction through delivering the right product at the right time at greater value for money as a result of reduced overall cost. The purpose of operations is to support business strategy while the purpose of supply chain management is to support the operations strategy.

7.1.4 Future of supply chain management

Collaborative chains

Replenishment programs are designed to streamline the flow of goods within the distribution channel. There are several specific techniques for collaborative replenishment, all of which are building on the common denominator of rapidly replenishing inventory according to actual sales experience. The intent is to reduce reliance on forecasting when and where inventory will need to be positioned to meet consumer or end-user demand and instead allow suppliers to respond to demand on a just-in-time (JIT) basis. Effective collaborative replenishment programs require extensive cooperation and information sharing among different distribution channel participants. Specific techniques for automatic replenishment to be presented in detail below include: quick response; continuous replenishment; vendor managed inventory; and profile replenishment.

Quick response

Quick Response (QR) is a cooperative effort between retailers and suppliers to improve inventory velocity while providing merchandise supply closely matched to consumer buying patterns. QR is implemented by monitoring retail sales for specific products and sharing information across the supply chain to guarantee that the right product assortment will be available when and where it is required. For example, instead of operating on 15- to 30-day order cycles, a QR arrangement can replenish retail inventories in 6 or fewer days. Continuous information exchange regarding availability and delivery reduces uncertainty for the total supply chain and creates opportunity to maximize flexibility. With fast, dependable order response, inventory can be committed as required, resulting in increased turnover and improved availability.

Continuous replenishment and vendor managed inventory

Continuous Replenishment (CR) and vendor managed inventory (VMI) are modifications of QR that eliminate the need for replenishment orders. The goal is to establish a supply chain arrangement so flexible and efficient that retail inventory is continuously replenished. The distinguishing factor between CR and VMI is who takes responsibility for setting target inventory levels and making restocking decisions. In CR, the retailer makes the decisions. In VMI, the supplier assumes more responsibility and actually manages inventory for the retailer. By receiving daily transmission of retail sales or warehouse shipments, the supplier assumes responsibility for replenishing retail inventory in the required quantities, colors, sizes, and styles. The supplier commits to keeping the retailer in stock and to maintaining inventory velocity. In some situations, replenishment involves cross-docking or Direct Store Delivery (DSD) designed to eliminate the need for warehousing between the factory and retail store.

Functional to process integration

One of the oldest and potentially most productive trends is the continued migration from functional to process integration. The work of logistics itself hasn't changed relatively over the past decade and will continue to remain the same during the next one. But what has and will continue to change rapidly is how we view it (the work of logistics). As power and control are developing within organizations, the traditional notion of functional department has been obsolete over time as indispensable part of an organization. While departments still remain the preferred method of managing organization and its work, the reality is that process-oriented, self-directed work teams are increasingly the solution for significant breakthroughs in efficiency. Managers realize that functional excellence is only important in terms of the contribution by functions made to processes served. Information Technology developments such as ERP are starting to support more sophisticated approaches, lessening the difficulty of measuring across functions. While there has been substantial progress to retain functional and inter-functional approach, major opportunities to shift to the process focus approach remain. First, while purchasing, production, logistics, and marketing functions have each been integrated within their individual processes, there has been less progress in integration between these areas. But further integration across a firm's major functional boundaries is the first step toward additional process integration. Second, there must be substantial advancement of process integration with external supply chain partners, particularly with service providers. This requires more consistency in the definition, execution, and measurement of supply chain processes to establish common language and expectations. Third, most employees will do what they are measured on and what they are paid to do. The challenge is to convert metric and reward structures from department related budgets to coordinated process-related incentives. There has been substantial progress in this area, but more opportunities remain as additional cost information and accuracy will lead to more refined processes with reduced redundancy and duplication.

Vertical to virtual integration

Historically, firms have tried to reduce supply chain conflict by owning consecutive levels in the business process. Henry Ford's original business strategy is a legendary attempt at using ownership to achieve vertical supply chain integration. Ford's dream was a full ownership and management of the entire value-creation process in order to reduce waste and increase relevancy. Ford's rubber plantations, ships, and foundries converted raw iron ore to a finished car in just 07 days. The problem with vertical integration is that it requires tremendous capital investment and an incredibly complex organization structure. Re-creating Henry Ford's vertical supply chain is infeasible in today business as since that time the scale and size of business have grown immensely. Firms, therefore, must harness the expertise and synergy of external supply chain partners to achieve success. Virtually integrating operations with material and service suppliers to form a seamless flow of internal and external work should overcome financial barriers of vertical ownership while retaining many of the benefits. While many manufacturing and retail firms have traditionally worked with third-party logistics providers to handle physical movements of products, there is a growing trend to outsource knowledge processes as well. Staff and process design activities are being outsourced to consultants. Information design, collection, maintenance, and analysis are also subjects of outsourcing to information integrators. Knowledge specialization will increasingly become an activity considered for outsourcing by the virtual enterprise. The benefits of outsourcing such as focusing core competency on core business requirements will continue to drive firms from vertical to virtual integration. While most firms have taken initial steps toward virtually integrating their supply chains, relatively few firms have achieved full-scale implementation. To move to virtual integration, three shifts must occur:

First, managers who interface with material and service suppliers must learn how to manage assets and activities that they do not directly control and cannot directly see but whose performance they can and must monitor to ensure success. These suppliers represent a firm’s extended family and will contribute as much to the future success or failure of the supply chain as any internal department. A firm's management strategy must reflect the recognition that a supply chain is only as strong as its weakest supplier link (partner).

Second, supply chain partners must have a common vision of the total value creation process as well as shared responsibility for achieving it. Firms must carefully identify and select partners with complementary visions, strategies, and operational capabilities. Partners must carry out their operations in ways that reduce duplication, redundancy, and dwell time while maintaining synchronization. Additionally, firms must spread the risks and rewards of collaboration to solidify goal attainment. Evolving the structures to facilitate virtual integration is neither easy nor quick.

Finally, firms must extend management practices beyond suppliers to include suppliers' suppliers. Suppliers' views on resource needs and constraints, threats, opportunities, and weaknesses must be considered when setting goals, objectives, and action plans as they play increasingly vital and irreplaceable roles in creating end-customer value.

Customizing and postponement

The concept of modularization was introduced in 1966 (Starr 1966) which eventually led to customization. It implies product design whereby the product is assembled from a set of standardized constituent units. Different assembly combinations from a given set of standardized units give rise to different end products and variations. In essence, modular design marries flexibility with standardization. It provides opportunities for exploiting economies of scales from a product design perspective. Perfect examples are Dell computers which are highly customizable.

The idea of postponement was introduced by Alderson (1950). It was defined as differentiating the product at a later date until the customer order was received. The concept was eventually expanded by Bucklin (1965) and Zinn & Bowersox (1988). By this time, the postponement concept had developed into form, time and place postponement.

In the 1990s, the idea of merging mass customization with postponement became a reality. In this model, more entities within the supply chain were involved unlike the earlier postponement model whereby only the manufacturer was involved (Hoek *et al*. 1998). Suppliers, transporters, manufacturers, wholesalers, distribution centers and resellers collaborate to ensure the timely delivery of products to end users. Zinn & Bowersox (1988) has developed 5 types of postponement: Labeling; Packaging; Assembling; Manufacturing; Time.

- **Labeling:** For companies which sell canned products to other companies, cans are labeled. One reason is the uncertainty in allocating the proportion of the materials for each label at the point of canning. There is no difference in the quality of the product under the labels. These companies postpone their labeling operation when they receive orders and just before the goods are distributed.
- **Packaging:** An example is the use of different packaging from a bulk of materials. Such materials include detergent or consumer goods such as baby diapers. In some countries, those products are sold in smaller packs due to weak purchasing power.
- **Assembling:** When companies have many product variants, assembling postponement is an ideal way of achieving it. Customization should not delay delivery if modularization is used. Many electronic products such as laptops, tablets or mobile phones fall into this category.
- **Manufacturing:** Products are manufactured until customer orders are received. Examples are easily made products or service, especially in food and beverage industry to preserve freshness and keep the expiry date as long as possible.
- **Time:** Finished products are shipped to a central distribution center, closer than the manufacturing plant. The aim is to respond quickly to customers' requirements. With the emergence of e-commerce, virtual inventory are independent of the physical location of the inventories at the time the orders are placed. Amazon.com works with vendors to keep the books at the warehouses which are often located in cities and near to airport. Working with parcel delivers and vendors, books are shipped to end users.

Challenges of supply chains

Given the extreme changes that have occurred in supply chain management concepts and practices during the past several decades, an appropriate question is-What can we expect to happen during the next decade? The primary determinant of the shape and form of future supply chain requirements will be the nature of demand that needs to be serviced. The globalization of business promises to offer new and unique challenges for the logistical competencies of most firms. Few will be able to escape the impact of a global economy. Challenges will also increase in the environmental aspects of logistics, often referred to as green issues. The full ramification of long-term responsibility for the environmental impact of all products and services is just emerging. Finally, firms can fully expect that customers making major business commitments to supply chain partners will expect nearly perfect logistical performance. Even in today's business environment, firms that build strong customer and supplier relationships must be committed to operational excellence. Logistical systems of the future will face complex and challenging performance requirements. Even more so than today, logistics will be required to support multiple-product distribution to globally dispersed fast growing population in heterogeneous markets. People in general will increasingly have resources to participate in economic growth. However, significant differences are expected in lifestyle and related social priorities. Evidence suggests that consumers of the future will demand services and conveniences contained in the products they purchase. For instance, such items as frozen meat and vegetables might well be precooked and ready for consumption when bought. To the extent that this service/convenience pattern accelerates, more value will be added to the typical product before it begins the logistical process. In favor and to support this trend, the complexity of the total manufacturing/ marketing system will increase.

The priority placed on development of integrated management skills rests on the contribution that superior logistics performance can make to business success. A firm can achieve sustainable competitive advantage when its important customers perceive that it has the capabilities to logistically outperform competitors. A prerequisite to logistical excellence is the development and implementation of supply chain integration. Managing logistics on an integrated basis is becoming increasingly relevant for the following reasons:

First, there is considerable interdependence between areas of logistical requirements that can be exploited to the advantage of an enterprise. The idea of a total movement/ storage system offers efficiency and synergistic potential. Throughout the logistical system, management is faced with ever increasing labor costs. Since logistical work is among the most labor-intensive performances within an enterprise, logistics managers must develop methods to substitute capital for labor-intensive processes. Complete integration increases the economic justification for substituting capital for labor.

Second, a narrow or restricted functional approach in business may create dysfunctional behavior. Concepts relevant solely to market distribution, manufacturing support, or procurement can create diametrically opposite operational priorities and goals. The failure to develop the concept of integrated logistical management creates the potential danger for sub-optimization.

Third, the control requirements for each individual aspect of operations are similar. The primary objective of logistical control is to reconcile operational demands in a cross-functional manner focused on overall goals.

A fourth reason for the integration of logistical operations is an increasing awareness that significant trade-offs exist between manufacturing economies and marketing requirements and that these can be reconciled only by a soundly designed logistical capability. The traditional practice of manufacturing is to produce products in various sizes, colors, and quantities in anticipation of the future sale. The postponement of final assembly and initial distribution of products to a later time when customer preferences are more fully identified can greatly reduce risk and increase overall enterprise flexibility. Innovative production and marketing information systems are emerging in a bid to make use of logistical competency to increase the responsiveness and to reduce the traditional anticipatory commitment and risk of business.

A final and most significant, reason for integration is that the complexity of future logistics will require innovative arrangements. The challenge for the new millennium is to develop new ways of satisfying logistical requirements, not simply using technology to perform the old ways more e-fficiently. While this is similar to the challenge faced in the 1990s, the stakes are getting higher. In the world of the future, leading firms can be expected to increasingly use integrated logistical competency to gain differential competitive advantage. The broad-based achievement of integrated logistical management will remain a prerequisite for such innovative breakthroughs.

The combined impact of these factors is that logistics will increasingly be managed on an integrated basis. However, the job of reengineering logistics as an integrated process is far from completed. Research continues to point out that a significant number of firms worldwide have only made limited progress toward logistical integration. Approximately 10% North American firms have achieved a level of integration that facilitates their use of logistical competency to gain and maintain customer loyalty. This percentage in other companies, especially in the developing world is even less optimistic.

7.2 Performance measurement in the supply chain

Supply chain related costs might exceed a bulk of the cost of doing business. For this reason, better management of the supply chain offers the potential for large savings which can contribute to improved corporate profitability. In mature markets in which large percentage of sales increases are difficult to achieve and corporate profitability is continuously being eroded by increasing costs and competition it is necessary to look for ways to improve productivity. In many firms, supply chain has not been managed as an integrated system. Even in firms that have accepted the concept of integrated supply chain management, evidence suggests that the cost data required for its successful implementation are not readily available. The accurate measurement and control of supply chain related costs offers significant potential for improving cash flow and return on assets. In order to accurately assess the performance of an existing supply chain and its related processes, one must have objective performance information. Ideally, this information should cover the full range of performance areas, including, but not limited to:

- Products and services offered Sales
- Market share
- Cost
- Quality
- Inventory holdings
- Delivery
- Cycle times
- Assets utilized
- Responsiveness
- Customer service

Developing and maintaining a supply chain performance measurement system represents one of the most significant challenges faced in all supply chain management initiatives. However, if supply chains are to be improved, decisions need to be based on objective performance information and will require sharing of this type of information with key supply chain members. Organizational willingness to share information with other supply chain members is a critical selection criterion for supply chain membership. An organization that is willing to receive information from other supply chain members but is reluctant to share information is a poor candidate for inclusion in supply chain management initiatives. Benchmarking analysis has been proved to be an effective means of determining the supply chain's performance relative to those of other organizations. Cook (1995) defines benchmarking as "the process of identifying, understanding, and adapting outstanding practices from within the same organization or from other businesses to help improve performance". This involves comparing practices and procedures to those of the best to identify ways in which an organization can make improvements. Thus new standards and goals can be set which, in turn, will help better satisfy the customer's requirements for quality, cost, product and service. The steps typically found in the benchmarking process include:

a) Identify and understand current processes.
b) Form a benchmarking team.
c) Determine what to benchmark.
d) Identify benchmarking partners.
e) Collect data.
f) Analyze data and identify performance gaps.
g) Take actions to improve.
h) Review results.

Benchmarking provides a means to focus the supply chain management efforts on those areas most in need of improvement. Measurement is important, as it affects organizational and individual behavior that impacts the performance of the supply chain. As such, performance measurement provides the means by which a company can assess whether its supply chain has been improved or degraded. There are several important factors pointing to the importance of measurement of the supply chain's performance. Measurements are important directly to controlling behavior and indirectly to performance in terms of achieving the supply chain's improvement objectives:

- Drive achievement toward business goals.
- Provide focus on business strategies.
- Align employees' efforts toward objectives.
- Sustain improved business performance.
- Guide shifts in business direction.
- Achieve balanced results across stakeholder groups.

7.2.1 Approaches to measuring performance

Traditionally, companies have tracked performance based largely on financial accounting principles. Financial accounting measures are certainly important in assessing whether or not operational changes are improving the financial health of an enterprise, but they are insufficient to measure supply chain performance for the following reasons:

- The measures tend to be historically oriented and not focused on providing a forward-looking perspective.
- The measures do not relate to the important strategic, non-financial performance, like customer service/loyalty and product quality.
- The measures do not directly tie to the operational effectiveness and efficiency.

In response to some of these deficiencies in traditional accounting methods for measuring supply chain performance, a variety of measurement approaches have been developed and adopted, including the following:

- The Balanced Scorecard (BSC)
- The SCOR Model (SCORM)
- The Logistics Scoreboard
- Activity-Based Costing (ABC)
- Economic Value Analysis (EVA)

The balanced scorecard

The Balanced Scorecard recommends the use of executive information systems (EIS) that track a limited number of balanced metrics that are closely aligned to strategic objectives. The approach was initially developed by Robert S. Kaplan and David P. Norton (1992) and was discussed in an article entitled "*The Balanced Scorecard-Measures That Drive Performance*" published in the *Harvard Business Review*, January-February 1992. While not specifically developed for supply chain performance measurement, the Balanced Scorecard principles provide excellent guidance to follow when doing it. The approach would recommend that a small number of balanced supply chain measures be tracked based on four perspectives:

- Financial perspective (e.g., cost of manufacturing and cost of warehousing)
- Customer perspective (e.g., on-time delivery and order fill rate)
- Internal business perspective (e.g., manufacturing adherence-to-plan and forecast errors)
- Innovative and learning perspective (e.g. new product development cycle time)

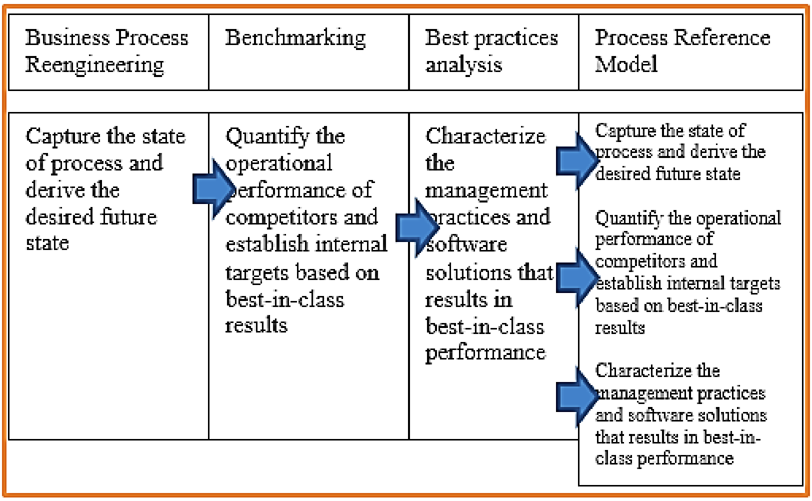
The SCOR model

The SCOR, which stands for Supply Chain Operations Reference model was developed by Supply Chain Council (SCC). The Supply Chain Council is an independent, not-for-profit, global corporation with membership open to all companies and organizations interested in applying and advancing state-of-art supply chain management systems and practices. The model defines common supply chain management process and matches them against best practices. It provides companies with powerful tool in improving supply chain operations. It allows manufacturers, suppliers, distributors and retailers with a framework to evaluate the effectiveness of their supply chain operations and to target and measure specific process operations. The SCOR model was designed to enable companies to communicate, compare and learn from competitors both within and outside of their industry. It not only measures supply chain performance but also effectiveness of supply chain reengineering. Further, it has the ability to test and plan future process improvements.

Process reference model

Process reference model integrate the concepts of business process reengineering, benchmarking, and process measurement into a cross-functional framework. A process reference model helps organizations capture the current and inherent state of a process with the objective to achieve the desired future state. Further, it allows organization to quantify the operational performance, establish internal targets based on best-in-class results in similar companies. It describes standard management processes, exploring relationship among different processes. It defines standard metrics to measure process performance and evaluate the management practices that produce the best-in-class performance. Finally it characterizes the management practices and software solutions that result in best-in-class performance. Process reference helps the complex management process be captured in standard process reference model. This in turn helps organization to communicate unambiguously and measure, manage, (re) tune specific process.

Illustration 104: The process reference model



Source: Based on VLI's internal teaching materials

Scope of SCOR processes

The scope of SCOR processes includes the following:

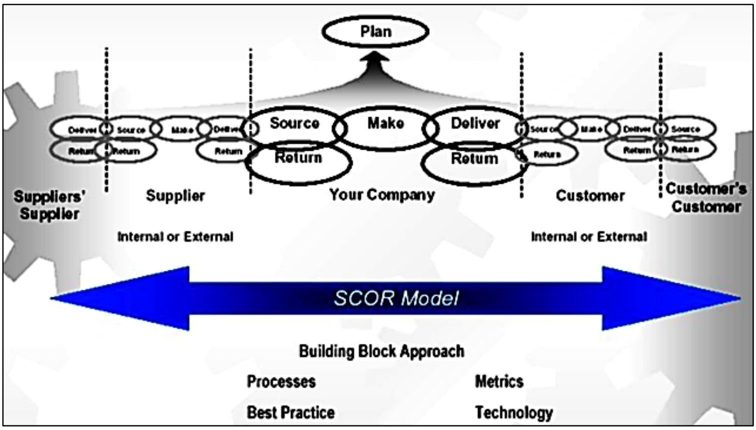
- PLAN-Demand/Supply Planning and Management
  - Balance resources with requirements and establish/ communicate plans for the whole supply chain, including Return, and the execution processes of Source, Make, and Deliver.
  - Manage the business rules, supply chain performance, data collection, inventory, capital assets, transportation, planning configuration, regulatory requirements and compliance.
  - Align the supply chain unit plan with the financial plan.
- SOURCE-Sourcing Stocked, Make-to-Order, and Engineer-to-Order Product
  - Schedule deliveries; receive, verify, and transfer product; and authorize supplier payments.

- Identify and select supply sources when not predetermined, as for engineer-to-order product.
- Manage business rules, assess supplier performance, and maintain data.
- Manage inventory, capital assets, incoming product, supplier network, import/export requirements, and supplier agreements.

- MAKE-Make-to-Stock, Make-to-Order, Engineer-to-Order Production Execution
  - Schedule production activities, issue product, produce and test, package, stage product, and release product to deliver.
  - Finalize engineering for engineer-to-order product.
  - Manage rules, performance, data, in-process products, equipment and facilities, transportation, production network, and regulatory compliance for production.
- DELIVER-Order, Warehouse, Transportation, and Installation Management for Stocked, Make-to-Order, and Engineer-to-Order Product
  - All order management steps from processing customer inquiries and quotes to routing shipments and selecting carriers.
  - Warehouse management from receiving and picking product to load and ship product.
  - Receive and verify product at customer site and install, if necessary.
  - Invoicing customer.
  - Manage deliver business rules, performance, information, finished product inventories, capital assets, transportation, product life cycle, and import/export requirements.
- RETURN-Return of Raw Materials (to Supplier) and Receipt of Returns of Finished Goods (from Customer), including Defective Products, MRO (Maintaining, Repairing, Operating) Products, and Excess Products
  - All return defective product steps from authorizing return; scheduling product return; receiving, verifying, and disposition of defective product; and return replacement or credit.
  - Return MRO product steps from authorizing and scheduling return, determining product condition, transferring product, verifying product condition, disposition, and request return authorization.

- Return excess product steps including identifying excess inventory, scheduling shipment, receiving returns, approving request authorization, receiving excess product return in source, verifying excess, and recover and disposition of excess product.
- Manage return business rules, performance, data collection, return inventory, capital assets, transportation, network configuration, and regulatory requirements and compliance.

Illustration 105: SCOR model

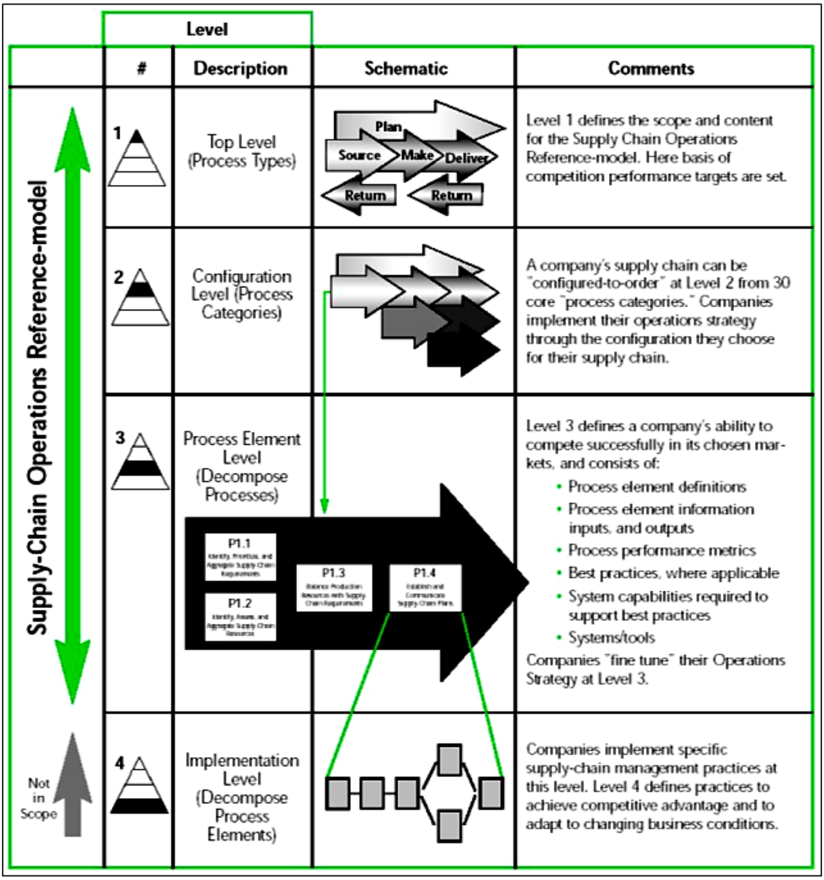


Source: VLI's internal teaching materials

Four levels of SCOR process model

- **Level 1:** Provides definition of the Plan, Source, Make, and Deliver process types. This is the point where a company establishes its supply-chain competitive objectives.
- **Level 2:** Defines 30 core process categories that are possible components of a supply chain. Organizations can configure their ideal or actual operations using these processes.
- **Level 3:** Provides the information required for successfully planning and setting goals for supply-chain improvements. This includes defining process element, setting target benchmarks, defining best practices, and system software capabilities to enable best practices.
- **Level 4:** Focuses on implementation, i.e. putting specific supply chain improvements into action. These are not defined within industry standard model, as implementation can be unique to each company.

Illustration 106: 04 levels of SCOR model



Source: VLI's internal teaching materials

Applications and benefits of using the SCOR model

The SCOR model can be used in all kinds of companies. In the beginning users tend to feel like their company is an exception, but in the end they always discover that all companies have the same problems. The SCOR model is generic enough to be used in all industries. 7% of the Fortune 1000 companies accounting for 35% of the profits are Supply Chain Council (SCC) members and use SCOR on some levels. The average profit margins of these companies are twice as high as the profit margins of non-SCC members. SCOR companies are thus in general more profitable than non-SCOR companies owing to the following benefits:

Delivery lead-time improvement: Siemens medical, which is the winner of the SCC 2001 operational excellence award, is an exemplary SCOR model user. Siemens medical had cut its delivery lead times from 22 weeks to 02 weeks; it had increased its delivery reliability by 65% to 99.5%. This was achieved by using the SCOR model, implementing more direct distribution systems, increasing the percentage of goods that are made to order and implementing the Kanban system.

Supply chain process improvement: Avon was striving to transform its supply chain using SCOR. Avon sells cosmetics directly to consumers with a network of agents. Avon's aims were similar to most companies: better asset performance, reduced inventories and improved forecasting. The objectives were to cut cycle times by over 50% and increase the perfect order rate to 90% from 62%. This was to be achieved by simplifying networks and processes and optimizing the manufacturing locations of different products. Supply chain planning was centralized, suppliers started managing inventories, the supply base was rationalized and manufacturing facilities were placed in eastern European countries with direct deliveries from two hubs. The SCOR model was used to map the processes. Process owners were named for the SCOR processes and a scorecard based on SCOR was used. The main benefits of using SCOR were increased common understanding, reduced problems in designing processes and forced integration between functions. SCOR is a key enabler for the process-based organization.

The logistics scoreboard

Another approach to measuring supply chain performance was developed by Logistics Resources International Inc. (Atlanta, GA), a consulting firm specializing primarily in the logistical (i.e., warehousing and transportation) aspects of a supply chain. The company recommends the use of an integrated set of performance measures falling into the following general categories:

- Logistics financial performance measures (e.g., expenses and return on assets).
- Logistics productivity measures (e.g., orders shipped per hour and transport container utilization).
- Logistics quality measures (e.g., inventory accuracy and shipment damage).
- Logistics cycle time measures (e.g., in-transit time and order entry time).

In contrast to the other approaches discussed, The Logistics Scoreboard is prescriptive and actually recommends the use of a specific set of supply chain performance measures. These measures, however, are skewed toward logistics, having limited focus on measuring the production and procurement activities within a supply chain.

Activity based costing

The Activity-Based Costing (ABC) approach was developed to overcome some of the shortcomings of traditional accounting methods in tying financial measures to operational performance. The method involves breaking down activities into individual tasks or cost drivers, while estimating the resources (i.e., time and costs) needed for each one. Costs are then allocated based on these cost drivers rather than on traditional cost-accounting methods, such as allocating overhead either equally or based on less-relevant cost drivers. This approach allows better assessment of the true productivity and costs of a supply chain process. For example, use of the ABC method can allow companies to more accurately assess the total cost of servicing a specific customer or the cost of marketing a specific product. ABC analysis does not replace traditional financial accounting, but provides a better understanding of supply chain performance by looking at the same numbers in a different way. ABC methods are useful in conjunction with the measurement approaches already discussed as their use allows us to more accurately measure supply chain process/task productivity and costs by aligning the metrics closer to actual labor, material, and equipment usage.

Economic value added

One of the criticisms of traditional accounting is that it focuses on short-term financial results like profits and revenues, providing little insight into the success of an enterprise towards generating long term value to shareholders-thus, relatively unrelated to the long-term prosperity of a company. For example, a company can report many profitable quarters, while simultaneously disenfranchising its customer base by not applying adequate resources towards product quality or new product innovation. To correct this deficiency in traditional methods, some financial analysts advocate estimating a company's return on capital or economic value-added. These are based on the premise that shareholder value is increased when a company earns more than its cost of capital. One such measure, EVA, developed by Stern, Stewart & Co., attempts to quantify value created by an enterprise, basing it on operating profits in excess of capital employed (through debt and equity financing). Some companies are starting to use measures like EVA within their executive evaluations. Similarly, these types of metrics can be used to measure an enterprise's value-added contributions within a supply chain. However, while useful for assessing higher level executive contributions and long-term shareholder value, economic value-added metrics are less useful for measuring detailed supply chain performance. They can be used, however, as the supply chain metrics within an executive-level performance scorecard, and can be included in the measures recommended as part of The Logistics Scoreboard approach.

7.2.2 Implementing measurements and control

While the approaches described above provide guidance for supply chain measurement, they provide less help in assessing specific metrics to be used. In this regard, a key driving principle, as espoused by the Balanced Scorecard, is that measures should be aligned to strategic objectives. Supply chain strategy, however, differs from company to company and depends upon its current competencies and strategic direction. Companies can generally fall into the following developmental stages that will dictate the types of measures and the degrees to which they will need to focus:

Functional excellence: A stage in which a company needs to develop excellence within each of its operating units such as the manufacturing, customer service, or logistics departments. Metrics for a company in this stage will need to focus on individual functional departments.

Enterprise-wide integration: A stage in which a company needs to develop excellence in its cross-functional processes rather than within its individual functional departments. Metrics for a company in this stage will need to focus on cross-functional processes.

Extended enterprise integration: stage in which a company needs to develop excellence in inter-enterprise processes. Metrics for a company in this stage will focus on external and cross-enterprise metrics. Historically most companies have focused their performance measurement on achieving functional excellence. With the advent of supply chain management principles aimed at integrating their supply chains, many have objectives to increase their degree of enterprise-wide integration and extended enterprise integration. In order to achieve these types of objectives, their performance measurement systems will need to align to them. Advice for these supply chain measurement systems falls into five areas that include:

- Function-based measures
- Process-based measures

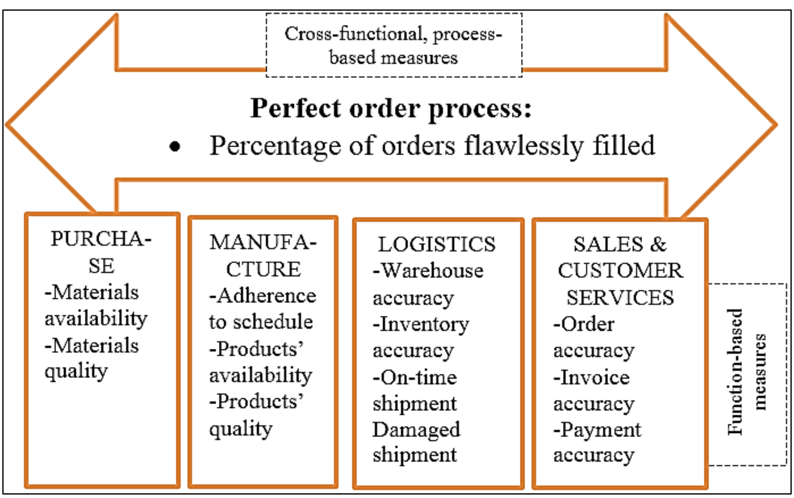
- Cross-enterprise measures
- Number of measures to be used
- Alignment of executive to management level measures

A set of measures developed by a leading consumer products manufacturer is also discussed, providing an illustration of the type that might be selected.

Function-based and supply chain measures

A major problem encountered with most performance measurement systems is that they are functionally focused. Within these systems, each functional area measures its performance in its own terms, with individuals evaluated based on their ability to meet objectives consistent with their department's performance measures. Individuals working under these measurement systems tend to drive operations toward improving their own area's performance, frequently at the expense of the performance of other functional areas. When each functional area sets its performance measures in isolation from those of others, it often leads to conflicting organizational goals. The Illustration below depicts a typical set of function-based supply chain-related performance measures used by many manufacturers.

Illustration 107: benefits of cross-functional, process-based measures



Source: Larry Lapide, 'What about Measuring Supply Chain Performance', AMR Research

These types of measures used in isolation of each other tend to create conflicting goals among functional areas as follows:

Customer service and sales

In these functional areas, employees are measured by their ability to maintain customer service levels. Measured in this context only, these employees tend to drive operations toward satisfying potentially smaller sized customer orders and carrying high levels of finished goods inventories by stocking inventories in multiple locations close to customers to shorten cycle times.

Logistics

In this functional area, employees are measured by transportation and warehousing costs, and inventory levels. Measured in this context only, logistics personnel tend to keep inventories low and batch customer orders to ensure that trucks are shipped full and picking operations are minimized. On the inbound side, these employees will want to receive full truckloads at their warehouse docks to minimize receiving costs, usually at the expense of increased inventories.

Manufacturing

In this functional area, employees are measured in terms of manufacturing productivity. Measured in this context only, they want to make longer production runs that result in higher levels of finished goods inventories. In a make-to-order manufacturing environment there will be a tendency to consolidate customer orders into longer production runs, making them less responsive to dynamic customer demands.

Purchasing

In this functional area, employees are typically measured by materials costs and supplier delivery performance. Measured in this context only, buyers will purchase in large quantities to get volume discounts and use more suppliers for each item to ensure a low price. This behavior results in purchasing excess, potentially low quality, raw materials.

The above mentioned behaviors that use of only function-based measures could drive employees toward changing functional performance in entirely different directions. These types of measures alone have reinforced functional focus, reducing the effectiveness of many supply chains and fostering arms-length transactions among departments, leading to processes that are slow to respond. In addition, performance improvement initiatives get focused on a single objective that frequently runs counter to increasing the efficiency of the total supply chain. For example, an initiative focused on reducing transportation costs focuses on filling up outbound trucks. While this seems benign, it may not be best from a total supply chain perspective when customer orders are held up to fill up a truck, or they are forced to order in greater quantities.

Below, in the table below, there are some possible supply chain measures classified by functional and non-functional areas.

Table 62: Supply chain measures

Functional measures	
Customer Service Measures	• Number of complaints per period of time
	• Respond to complaints within a period of time
	• Provide resolution on time
	• Customer loyalty index
	• Customer returns
	• Line item fill rate
	• Quantity fill rate
	• Order entry times
	• Accuracy of order entry
	• Backorder/stock-outs
	• Customer satisfaction
	• Order fill rate
Logistics Related Measures	• Warehousing costs
	• Inventory obsolescence
	• Inventory carrying costs
	• On-time delivery
	• Standard lead time per shipment lane
	• Finished goods inventory days
	• Lines picked/hour
	• Pick accuracy
	• Transportation cost
	• Shipment accuracy
	• In-transit inventories
	• Premium freight charges
	• Warehouse space utilization
	• Finished goods inventory turns
	• Documentation accuracy
	• Damaged shipments
	• Inventory accuracy

Manufacturing Related Measures	• Production cycle time
	• Manufacturing productivity
	• Bill-of-materials accuracy
	• Setup/Changeover costs
	• Plant space utilization
	• Percent scrap/rework
	• Product quality
	• WIP inventories
	• Line breakdowns
	• Warranty costs
	• Source-to-make cycle time
	• Compliance-to-schedule
	• Yields
	• Cost per unit produced
	• Setups/Changeovers
	• Routing accuracy
	• Production stoppages
	• Machine availability
	• Overtime usage
	• Master schedule stability
	• Plant utilization
Purchasing Related Measures	• Expediting orders from suppliers
	• Unit purchase costs
	• Purchasing cost per man-hour
	• Material acquisition costs
	• Supplier delivery performance
	• Number of complaints related to supplier
	• Quality of material/component
	• Material stock-outs
	• Material inventories
Enterprise-wide, process, cross-functional measures	
	• Schedule changes
	• Percent perfect orders
	• Planning process cycle time
	• Forecast accuracy
	• New product time-to-first make
	• New product time-to-market

Extended cross-enterprise measures	
	• Percent of suppliers getting shared forecast
	• Percent of customers sharing forecasts
	• Percent of EDI transactions successfully completed
	• Supplier inventories
	• Total landed cost
	• Point of consumption product availability
	• Percent of demand/supply on VMI/CRP
	• Total supply chain inventory

Source: Own development

Implementing performance metrics

There is no single best approach for company to implement performance metrics to manage their supply chain process. Companies however can use the Balanced Scorecard, SCOR Model, Logistics Scoreboard, as the excellent guidance when developing a supply chain performance measurement system. Implementing supply chain performance measurement system cannot be in a hurry. It has to start with the top-level objectives from the corporate level first and roll it down to next levels. The following are six phases for developing and using Balanced Scorecards to manage performance: Collect, Create, Cultivate, Cascade, Connect and Confirm.

Collect

- Obtain top-level objectives, measures, and targets.
- Identify customers and key requirements.
- Define core process chains.
- Document high-level process flows.
- Gather existing measurement data.
- Plan the scorecard development session and agenda.
- A snapshot of your customer-supplier process chain.
- High-level flow charts of core processes.
- Inputs and agenda for scorecard development session.

Create

- Review Scorecard development planning inputs.
- Define key result areas.
- Relate business objectives to key result areas.

- Brainstorm potential measures.
- Select the key indicators for your performance scorecard.
- Define the key indicators.
- Develop action plans for compiling and reviewing the key indicators.
- Team objectives.
- Scorecard measures linked to corporate goals, business objectives, and customer requirements.
- Action plans to develop measures.

Cultivate

- Gather, display, and analyze historical data.
- Conduct performance reviews.
- Determine appropriate targets.
- Develop improvement action plans.
- Strengthen horizontal and vertical linkages.
- Shorter, more effective performance reviews.
- Appropriate and challenging targets for scorecard measures.
- Specific and measurable improvement actions.
- Stronger scorecard links.

Cascade

- Determine scorecard measures for next level in the cascade.
- Verify cascaded measures are at the appropriate levels.
- Establish and affirm linkages and alignment.
- Clarify targets.
- Establish summary measures, as needed.
- Refine steps for gathering, reporting, and reviewing results.
- A balanced and linked set of scorecard measures.
- Appropriate feedback measures for each level of accountability.

Connect

- Review your performance management process.
- Develop an individual performance plan.

- Conduct coaching sessions.
- Provide evaluation summaries.
- Review links and outcomes.
- Individual contributions linked to scorecard outcomes and business results.
- Indications of where the scorecard should be refined or adjusted.

Confirm

- Evaluate your scorecard.
- Prioritize and act on improvements.
- Identify and resolve measurement issues.
- Establish a process to refine your scorecard continually.
- Scorecard assessment.
- Scorecard improvement strategies and plans.
- Improved scorecards.

Reference

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