

# Final Thesis

ON

*Business Formation, Strategies & Aspects..*

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Dated: 21-02-09

## Abstract...

This thesis paper will provide a brief overview of the business formation concepts and the marketing steps involved in the development of business organization. My assignment will provide an explanation for each step in the process. This will explore the importance of planning, decision making, business ethics, marketing concepts and HRM in business applications that are necessary to achieve business goals. By this work remains the full bodied development of my ideas and my vision concerning business over years of academic reflection and experience.

The purpose of this thesis is to design a *Personal Information Management* system which can assist people to organize their business or organization more easily and simply. The theories allows users to think and to develop tasks and so on. Besides, my thesis contains simple theoretical concepts about business model that obviously functional and is designed to show the appropriate way to work in practical field.

The paper introduces the principles, methods, and strategies of starting a business as well as techniques for growing existing business. The text is organized into seven sections each containing several chapters. Part one provides objectives of business, basic business goals and a fundamental theory about forming business. Consequently I presented concepts about Business Planning, Marketing Theories, Financial Concepts, Insurance Policies, Business Law & Ethics, Human Resource Management Principles, above all natural and moral business issues. Each chapters contains two parts including theory and practical issues to understand deeply to raise awareness in this challenging world.

Planning for business formation or running business in not only theory based. I tried to give business ideas to entrepreneurs providing framework, cases and evaluating business principles. In a world of rapid and unpredictable change, the prospective entrepreneurs have to take challenge of their own to make a difference.

## Acknowledgment

For the last few months, I have researched a format to develop new business plan for upcoming entrepreneur. Most of my insights, concepts and ideas originated from different academic projects and coordination from my field works.

I have been fortunate to work for a very understanding academic support, efforts to move forward and regular contacts to give instant help for preparing assignments. In the course of my work I have had many opportunities to discuss new ideas about education for developing business improvement which helped me greatly in refining my conceptual framework.

No text is ever produced without the help and support of my University Authority, and many individuals. From conception to completion I am indebted to *Atlantic International University* for giving me chance to reach my destination.

I am deeply grateful to my University advisor (Jesus Örtiz), who helped with the organizing, writing, editing and who had great enthusiasm for my project. I also give special thanks for keeping me in touch smoothly while writing my thesis paper.

In addition, Research assistant was provided by Vodafone, O2, The Phone House Corporation, Real Super Market for supporting practical survey. I thank my friends and specially to my family members for their support. I appreciate all the help that I received and I am nonetheless eternally grateful to everyone.

February' 21

Md. Moinul Islam

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2-72002-002/0008980/28-D1571-01/4631-01/BS  
Vodafone D2 GmbH Vodafone-Kundenbetreuung 40875 Ratingen, 4/56856219

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### ZU DEN ES ANGEHEN DARF

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Ich wünsche jeden Erfolg von seinem akademischen Leben.

Mit freundlichen Grüßen

*Sabine Wagner*

Sabine Wagner

## Introduction...

Every change begins with a vision and decision to take action. Over the past two decades, the world economy has become increasingly integrated as flows of goods, labor, and capital across countries have expanded rapidly. Although there is a general belief that globalization has important long-term benefits through its impacts on growth and productivity, a large body of literature has focused on the distributional impacts of globalization, especially its effects on labor markets, and the short-term adjustment costs associated with countries' integration into the world economy. This article reviews the most recent business research on some important channels of challenging business world and their impacts in developing countries.

In countries with a higher degree of competitive business, policies tend to support more accountability in the private and public sectors. Policies in these more developing countries tend to be more stable, essential for long-term planning by business.

Human societies across the globe have established progressively closer contacts over many centuries, but recently the pace has dramatically increased. Jet airplanes, cheap telephone service, email, computers, huge oceangoing vessels, instant capital flows, all these have made the world more interdependent than ever. Multinational corporations manufacture products in many countries and sell to consumers around the world. Money, technology and raw materials move ever more swiftly across national borders. Along with products and finances, ideas and cultures circulate more freely. As a result, laws, economies, and social movements are forming at the international level. Many politicians, academics, and journalists treat these trends as both inevitable and (on the whole) welcome. But for billions of the world's people, business-driven works means uprooting old ways of life and threatening livelihoods and cultures.

Business has economic roots and political consequences, but it also has brought into focus the power of culture in this global environment - the power to bind and to divide in a time when the tensions between integration and separation tug at every issue that is relevant to international relations. The impact of business on us and for the society is very high. The homogenizing influences of business that are most often condemned by the new nationalists and by cultural romanticists are actually positive; and is a vital step toward both a more stable world and better lives for the people in it.

I will discuss about the key factors to start a business, concepts and key factors that to consider for managing business organization. Step by step I will try to formulate ideas and providing theoretical analysis among with. First for starting a business, *Plan* comes prior. Consequently *Decision Making*, *Marketing Policies*, *Financing Business*, *Information System in Business*, *Human Resource management*, *Organization Behavior and Leadership Skills* to adapt with competitive business.

## Business Plan...

A business plan is any plan that enables a business to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities. Business existed long before computers, spreadsheets, and detailed projections. So did business plan. Unfortunately, people think of business plans first for starting a new business or applying for business loans. They are also vital for running a business, whether or not the business needs new loans or new investments. Businesses need plans to optimize growth and development according to plans and priorities.

A business plan is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals. The business goals being attempted may be for profit or non-profit. For-profit business plans typically focus on financial goals. Non-profit and government agency business plans tend to focus on service goals, although non-profits may also focus on maximizing profit. Business plans may also target changes in perception and branding by the customer, client, tax-payer, or larger community. A business plan having changes in perception and branding as its primary goals is called a marketing plan.

Business plans are decision-making tools. There is no fixed content for a business plan. Rather the content and format of the business plan is determined by the goals and audience. A business plan should contain whatever information is needed to decide whether or not to pursue a goal. For example, a business plan for a non-profit might discuss the fit between the business plan and the organization's mission. Banks are quite concerned about defaults, so a business plan for a bank loan will build a convincing case for the organization's ability to repay the loan. Venture capitalists are primarily concerned about initial investment, feasibility, and exit valuation. A business plan for a project requiring equity financing will need to explain why current resources, upcoming growth opportunities, and sustainable competitive advantage will lead to a high exit valuation. Preparing a business plan draws on a wide range of knowledge from many different business disciplines. It can be helpful to view the business plan as a collection of sub-plans, one for each of the main business disciplines. A business plan is simply a resume for our proposed business.

Its primary importance is that our business plan becomes our calling card. Anytime we are going in to talk to a property manager about leasing space for our business, or we are meeting with a potential lender or investor, our business plan will announce/outline who we are and what our purpose is. In most cases, a business plan is created to explain and illustrate the vision we have for our business, and to persuade others to help us achieve that vision. To accomplish this, our plan will need to demonstrate on paper that we have a firm visualization of what our business is going to be. It needs to convince others that our business concept can be successful, and that we possess the expertise-alone or collectively-to assure that it will be both successful and profitable.

While it is obviously important to be able to present our business concept in a way that allows others to understand quickly and precisely what we hope to be doing, we also need to develop a business plan for our own



use. The process of developing our business plan will require us to focus on exactly what we are trying to achieve, precisely where we want to be going, and exactly how we plan to get there. It will force us to detail the many expenses involved to open our business, the projected sales and monthly expenses of actual operation, and the volume of business you will need to generate to meet our obligations.

**Preparing a business plan** is an organized, logical way to look at all of the important aspects of a business. First, decide what we will use the plan for, such as to:

- Define and fix objectives, and programs to achieve those objectives.
- Create regular business reviews and course corrections.
- Develop and establish a new business.
- Support a loan application.
- Define agreements between partners.
- Set a value on a business for sale or legal purposes.
- Evaluate a new product line, promotion, or expansion.

### **Keys to building better plans.**

- Use a business plan to set concrete goals, responsibilities, and deadlines to guide your business.
- A good business plan assign tasks to people or departments and sets milestones and deadlines for tracking implementation.
- A practical business plan includes ten parts implementation for every one part strategy.
- As part of the implementation of a business plan, it should provide a forum for regular review and course corrections.
- Good business plans are practical.

As we develop that plan we need to get over the business hurdle, always remember that there is potential much more value to planning than just the plan itself. Aside from the importance of overcoming the hurdle, it's the process around the plan that makes this such valuable tool for business management.

The planning process includes bringing teams together develop the plan, making firm commitments within the team, publishing a plan to cement those commitments, then tracking results and following up with plan vs. actual analysis and course corrections. Professional planners realize that a good business plan is never done, and a good business plan is rarely if ever right.

What makes a plan valuable isn't as much the prediction of the future as the guidepost and milestones that keep objectives in mind as the future reveals itself and events are managed. The business planning process is about controlling our own destiny in a business sense. Set our long term business goals and use a plan to break the journey from present to future into manageable concrete steps. Don't let the real world of phone calls and daily routines determine our future. Certainly, in the real world, there will be business problems and changes in economic environment, customers paying slower than expected, costs going up on one product, down on another.

In business school they called the real world the RW, pronounced "are-dub." Use business plan to make measured response to the vagaries of the RW, instead of scattered reactions. A good planning process helps a plan stand up to the real world. As each month closed, the plan absorbs plan vs. actual results. Each manager keeps track of milestones and budgets, and at the end of each month the actual results are compared to the plan. Managers look at the variance they make adjustments. They review the performance of their peers. Changes are made in the plan- organized, rational changes- to accommodate changes in actual conditions. Managers are proud of their performance, and good performance are shared with all. Business plans don't sell new business ideas to venture capitalists. Venture capitalists invest in people and ideas, not plans. A business plan, though necessary, is only a way to present information. Implementation details are important because that's what makes things happen. Brilliant strategies and beautifully formatted planning documents are just theory unless we assign responsibilities, with dates and budgets, and lots of following up of tracking of results. Business plans are really about getting results, and improving our company.

### Myths to start Businesses...

There are several myths about owning and operating a business that should be avoided at all costs. The main theme of starting a business means being own boss and independence. Some points are below:

- 1) **Look objectives.** We're going to devote a lot of time and energy to starting a business and building it into a successful enterprise, so it's really important that we truly deeply enjoy what we do, whether it be running fishing charters, creating pottery or providing financial advice.
- 2) **Start own business.** How long can most people live without money? Not long. And it may be a long time before our new business actually makes any profits. Being employed while we're starting our business means money in our pocket while we're going through the business start up process.
- 3) **Support.** We NEED a support system while we're starting a business (and afterwards). A family member or friend that we can bounce ideas off and who will listen sympathetically to the latest business start up crisis is invaluable. Even better, find a mentor or, if we qualify, apply for a business start up program. Experienced guidance is the best support system of all.
- 4) **Customer contacts.** Don't wait until we've officially started our business to line these up, because our business can't survive without them. Do the networking. Make the contacts. Sell or even give away our products or services. We can't start marketing too soon.

- 5) **Market Research.** We'll do a lot of research working through a business plan, but that's just a start. We need to become an expert on our industry, products and services, if we're not already. Joining related industry or professional associations before we start our business is a great idea.
- 6) **Get professional help.** On the other hand, just because you run a small business, doesn't mean we have to be an expert on everything. If we're not an accountant or bookkeeper, hire one (or both). If we need to write up a contract, and we're not a lawyer, hire one. We will waste more time and possibly money in the long run trying to do things yourself that we're not qualified to do.
- 7) **Budgeting.** Save up if we have to. Approach potential investors and lenders. Figure out our financial fall-back plan. Don't expect to start a business and then walk into a bank and get money. Traditional lenders don't like new ideas and don't like businesses without proven track records.
- 8) **Be professional.** Everything about us and the way we do business needs to let people know that we are a professional running a serious business. That means getting all the accoutrement such as professional business cards, a business phone and a business email address, and treating people in a professional, courteous manner.

Creating a business plan is a great tool for growing a business, but so many people dismiss it as a onetime process used only to start a company or raise financing. The myth that a business plan is only for start-ups gets in the way far too often. If we own or run a company, we probably want to grow it. And if we want to grow a company, then we want to plan that growth. And the planning is only the beginning; we want to use the full planning progress to manage growth.

How many different reasons there are for an existing company to plan its growth. there's the need, first of all, to control our company's destiny, to set long-term vision and objectives, and to calculate steps to take to achieve that vision. Without planning, the company is reacting to events, following reality as it emerges. With planning, there's the chance to pro actively lead the company towards its future. For an existing company that wants to grow, the planning progress is essential. Everybody wants to control their destiny. The planning progress is the best way to review the market and refresh our marketing, to prioritize and channel growth into the optimal areas, to allocate resources, to set priorities and manage tasks. Bring a team of managers together and develop strategy that the team can implement. Work on dealing with reality, the possible instead of just the desirable, and make strategic choices. Then follow up with regular plan review that becomes, in the end, management.

# Decision Making

Human performance in decision making terms has been the subject of active research from several perspectives. From a psychological perspective, it is necessary to examine individual decisions in the context of a set of needs, preferences an individual has and values they seek. From a cognitive perspective, the decision making process must be regarded as a continuous process integrated in the interaction with the environment. From a normative perspective, the analysis of individual decisions is concerned with the logic of decision making and rationality and the invariant choice it leads to. Yet, at another level, it might be regarded as a problem solving activity which is terminated when a satisfactory solution is found.

Therefore, decision making is a reasoning or emotional process which can be rational or irrational, can be based on explicit assumptions or tacit assumptions. Logical decision making is an important part of all science-based professions, where specialists apply their knowledge in a given area to making informed decisions. For example, medical decision making often involves making a diagnosis and selecting an appropriate treatment. Some research using naturalistic methods shows, however, that in situations with higher time pressure, higher stakes, or increased ambiguities, experts use intuitive decision making rather than structured approaches, following a recognition primed decision approach to fit a set of indicators into the expert's experience and immediately arrive at a satisfactory course of action without weighing alternatives. Recent robust decision efforts have formally integrated uncertainty into the decision making process.

Decisions involve interpersonal issues that are difficult to measure and assess but often determine the success or failure of the actions taken. Over the years, people have developed techniques for dealing with these difficulties, techniques that are part of a logical decision process. An overview of a five-step decision process, as shown in figure 1-1:

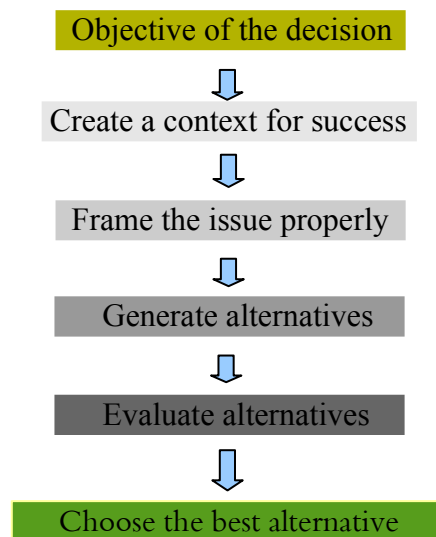


Figure 1-1: Decision Making Process.

### **Step 1: Establish a Context for Success**

The first step is to create an environment in which effective decisions are possible. If this task doesn't seem necessary, take a look around us. If our Company is like many others, we'll find that choices are often influenced by factors that are antithetical to sound decision making. For example, bickering between individuals eliminates rational discussion; management cannot maintain a healthy level of differences of opinion. A command-and-control culture tends to make decisions in line with the preferences of powerful individuals. No matter how well informed they may be, in these circumstances every decision is ad hoc, and there is no consistent approach to dealing with important choices. A decision-friendly context is generally free of these problems. In addition, it ensures that the right people participate in the process. Those people meet in a physical setting that encourages creative thinking and careful deliberation. A decision-friendly context also has ground rules that determine how a decision will be made.

### **Step 2: Frame the Issue Properly**

Every successful decision depends on a clear understanding of the issues at hand and the ways each will affect the objectives of the business. It is critical to determine the nature of the problem. As you'll see later, we cannot make a good decision if you fail to properly frame the problem.

### **Step 3: Generate Alternatives**

After the issue has been properly framed, decision makers must develop alternative choices. In the absence of alternatives there can be no genuine decision. The key to this step is to not limit yourself to obvious alternatives or what has worked in the past but to be open to new and better alternatives. How many alternatives should we identify? Ideally, all of them. Realistically, we teach that the decision maker should consider more than five in most cases, more than three at the barest minimum. This gets away from the trap of seeing "both sides of the situation" and limiting one's alternatives to two opposing choices; either this or that.

### **Step 4: Evaluate the Alternatives**

Once we have a realistic set of alternatives, we must assess the feasibility, as well as the risk and implications, of each possible choice. As we evaluate each alternative, we should be looking at the likely positive and negative consequences for each. It is unusual to find one alternative that would completely resolve the problem and is heads and shoulders better than all others. Differences in the "value" of respective alternatives are typically small, relative and a function of the decision maker's personal perceptions, biases and predispositions. As we consider positive and negative consequences we must be careful to differentiate between what we know for a fact and what we believe might be the case.

The decision maker will only have all the facts in trivial cases. People always supplement what facts they have with assumptions and beliefs. This distinction between fact-based evaluation and non-fact-based evaluation is included to assist the decision maker in developing a "confidence score" for each alternative. The decision maker needs to determine not just what results each alternative could yield, but how probable it is that those results will be realized. The more the evaluation is fact-based, the more confident he/she can be that the expected outcome will occur.

## Step 5: Choose the Best Alternative

When all previous Steps have been carried out properly and the decision team is in agreement on its objective, the team members can rationally evaluate each of the alternatives. Under ideal circumstances, the right choice will be clear. But in reality some degree of personal preferences, ambiguity often makes the final choice difficult. Fortunately, there are techniques that can help a decision team get through these difficulties. These methods, have fanciful names: point-counterpoint, and intellectual watchdog. Using these techniques ensures that the merits and demerits of each alternative are fully understood and debated. It would be easy to believe that mechanically carrying out each of the five process Steps will automatically lead to the best possible decision. Unfortunately, this is not the case. Although the five steps can help us organize the decision making effort, there are many opportunities sometimes referred to as *decision traps*—for us to make mistakes and allow personal prejudices to channel our thinking. Decision traps are the human biases that cause smart people to make poor choices. In short, sound decision making is as much an art as a science. It demands good judgment and creativity in addition to technical proficiency.

### Variables to Consider for decision making

Once we and our decision team have identified a set of alternatives, we must estimate how well each one meets the objective we established at the outset of the process. How much value does each alternative contribute to the objective? In answering that question, managers must contend with many variables:

- **Costs.** How much will the alternative cost? Will it result in a cost savings now or over the long term? Are there any hidden costs? Are there likely to be additional costs down the road? Does this alternative fall within the budget?
- **Benefits.** What profits or other benefits will we realize if we implement a given alternative? Will it increase the quality of our product? Will customer satisfaction increase? Will it make our people more effective?
- **Financial impact.** How will the monetary costs and benefits of this choice translate into bottom line results as measured by net present value? What will be the timing of that result? Will implementation require us to borrow money?
- **Intangibles.** Will our reputation improve if we implement a given alternative? Will our customers or employees be more satisfied and loyal?
- **Time.** How long will it take to implement this alternative? What is the probability of delays and the impact of delays on the schedule?
- **Feasibility.** Can this alternative be implemented realistically? Are there any obstacles that must be overcome?

If it is implemented, what resistance might be encountered inside or outside the organization?

- **Resources.** How many people are needed to implement each alternative? Are they available, or will we need to hire and train them? What other projects will suffer if individuals focus on this Option?

- **Risk.** What risks are associated with this alternative? For example, could it result in loss of profits or competitive advantage? How might competitors respond? Because risk and uncertainty are essentially the same thing, what information would reduce these uncertainties? Would it be difficult and costly to obtain risk-reducing information?

- **Ethics.** Is this alternative legal? Is it in the best interests of customers, employees, and the Community where we operate? Would we feel comfortable if other people knew that we were considering this alternative? There is little doubt that our decisions must take into account these same considerations. Obviously some will be more important to our company than others.

The goal of every organization should be to improve the quality of its decisions. Achievement of that goal is its own reward. Can we imagine how our company's bottom line would improve if senior executive decisions improved by as little as 25 percent? One out of four costly mistakes—in filling top positions, in pricing products and Services, in deal making, in strategy formulation—would be eliminated and replaced by a smart choice that improved effectiveness or made the enterprise more competitive. Employee energy, often wasted by poor executive decisions, would be directed toward activities that really create value.

Bad decisions by executives can never be eliminated because leaders live in an uncertain world, but replacing some bad decisions with good ones can make a huge difference in the fortunes of a business and its owners. Indeed, an investment in decision making improvement may have a higher return than almost anything else a Company can do, and for a simple reason: improved decision making generally costs very little but creates enormous shareholder value. We may have high expectations of receiving feedback, suggestions, and some level of healthy skepticism of shared ideas, but our staff doesn't rise to meet these expectations.

To make the best of decisions, we need to encourage the critical thinking and information sharing skills of our staff members; if these skills exist already, we simply need to provide an environment that encourages staff members input. Information needs to be shared and alternative actions analyzed. For the best decisions, that is, those based on the best available information and with the most support from our staff, we need to develop some level of consensus. Remember, consensus is not about everyone agreeing on one idea, but in ensuring that the process to reach a solution is universally understood to be valid. It is support for implementing any action or resolution that is key to its success. We are interested in not only the best possible solution, but also the one that will be most successful in implementation, through communication and consideration of the impact on all staff members.

## RULES in Decision Making

Rules are a means by which the decision making activities of subordinates are programed so that it is unnecessary for every decision to be referred to the Supervisor. Thus, rules save time for the executive. Subordinates do not have to consult supervisor on routine matters, for the rules lay down principles in advance. Decisions can, therefore, be made more quickly and at lower levels. Rules set up standard operating procedures. They may be written or unwritten; they may be established by supervisory edict, by training, by implicit bargaining, or through consultation. The significant points are that rules (1) restrict subordinate behavior, and (2) are enforced, in one way or another, by management. Rules are essential if an organization is to operate effectively.

Rules serve to limit the freedom of subordinates. Naturally, the greater the area of freedom given the subordinate, the greater the feeling of autonomy all will have. Unfortunately, the subordinate cannot be given authority to do everything superior wants: Well understood limits or rules make it possible for everyone to exercise freedom within these limits. Particularly in large business organizations, rules serve to make the behavior of the parts consistent with the needs of the whole. They reduce the possibility that personal feelings rather than organizational objectives will predominate in decision making.

Decision making process is done when a company wants to make new, polices, goals, and strategies. All of companies have this and it is the best way to settle problems in the company. The decision making process must come up with the best result to prevent more problems to come. The decision making process should be done accordingly and with so much care. When companies need to make decisions on certain issues they use strategic decision making process to make the best decisions. Decision makers must make decisions and take actions in this rapidly changing world. The ability to view the current situation through the good judgment viewpoint is weakened through increasing external noise and changing epitome of how people think about social, cultural, organizational and economic issues. The different decision making styles assist in dissecting the information that can be acquired from the different situations in the company and in the end it guides in discerning what action should be done. The different styles of decision making helps not only in finding solution for the problems in the company but it assists in determining what actions should be done so that the company can improve its operations and have sustainable competitive advantage. Decisions will always be a part of running the business.



## THE MARKETING CONCEPT

The marketing philosophy that stresses a consumer orientation, emphasizes long-range profitability, and suggests the Integration and coordination of marketing and other organizational functions. Although our discussion focuses on marketing research, marketing managers should understand how marketing research fits into the broader scope of marketing. Research is one of the primary tools that enables firms to implement the philosophical idea of the marketing concept. The **marketing concept** is the most central idea in marketing thinking. It has evolved over time as production- and engineering-oriented firms have responded to changes in the economic environment to become marketing-oriented firms. The marketing concept is a threefold conceptualization concerned with;

1. Consumer orientation.
2. Long-run profitability rather than sales volume.
3. Cross-functional perspective.

### Consumer Orientation:

According to the marketing concept, marketers must view the consumer as the pivotal point around which the business revolves. Simply put, the firm creates products, whether goods, Services, or both, with consumers' needs in mind. Many marketing theorists and operating marketing managers believe that the satisfaction of consumers' wants is the justification for a firm's existence. Crisco Savory Seasonings, a new line of flavored vegetable oils patterned after more expensive gourmet cooking oils, is a good example of a consumer orientation. The oils come in four all natural flavors: Roasted Garlic, Hot & Spicy, Classic Herb, and Lemon Butter. The oils fill a consumer need for quick and easy preparation. The flavored oils can be used in a wide range of cooking methods stir frying, sautéing, pan frying, marinades, and dressings—as either an ingredient or a cooking medium. Savory Seasonings can be thought of as a "speed-scratch product" that helps consumers cut down on meal preparation time, yet satisfies their desire for giving meals a homemade touch. Procter & Gamble's research showed that 72 percent of households still prepare dinner at home nightly and 32 percent of households prepare the meal in less than 30 minutes. Armed with this information, Procter & Gamble leveraged the strong brand equity of Crisco to make an affordable, convenient product for everyday use. Procter & Gamble realized that knowledge of consumers' needs, coupled with product research and development, leads to successful marketing strategies and that industry leadership indeed, corporate survival depends on satisfying consumers.

### Profit Orientation:

Consumer orientation does not mean slavery to consumers' every fleeting whim. Implicit in the marketing concept is the assumption of the continuity of the firm *within a competitive environment*. The firm must make a profit to survive in the long run. Most consumers would prefer to have a Porsche priced under \$15,000. However, the production costs of this car exceed that figure, and the firm surely would fail if it attempted to satisfy this desire. The second aspect of the marketing concept argues against profitless volume, or sales volume

for the sake of volume alone. Marketing cost analysis has taught numerous firms that 20 percent of their customers have been responsible for 80 percent of their profits and that sales-people have spent too much time on unprofitable accounts. The marketing concept suggests that these firms should reevaluate their efforts to sell to small, unprofitable accounts.

#### A Cross-Functional Perspective:

Marketing personnel do not work in a vacuum, isolated from other Company activities. The actions of people in areas such as production, credit, and research and development may affect an organization's marketing efforts. Similarly, the work of marketers will affect activities in other departments. Problems are almost certain to arise from a lack of an integrated, company wide effort. Marketers need to take a cross-functional perspective.

Problems occur when focusing on consumer needs is viewed as the sole responsibility of the marketing department. Indeed, other functional areas' goals may conflict with customer satisfaction or long-term profitability. For instance, the engineering department may want long lead times for product design, with simplicity and economy as major design goals. Marketing, however, may prefer short lead times and more complex designs with custom components and optional features for multiple models. The finance department may want fixed budgets, strict spending justifications, and prices that cover costs, whereas the marketing department may seek flexible budgets, liberal spending rationales, and below-cost prices to develop markets quickly. Similar differences in outlook may occur among the other functional areas of the organization, and these may be sources of serious conflicts. When a firm lacks organizational procedures for communicating marketing Information and coordinating marketing efforts, the effectiveness of its marketing programs will suffer.

### Importance of marketing research...

**Marketing research** is defined as the systematic and objective process of generating information to aid in making marketing decisions. This process includes specifying what information is required, designing the method for collecting information, managing and implementing the collection of data, analyzing the results, and communicating the findings and their implications. This definition suggests first that research Information is not intuitive or haphazardly gathered. Literally, *research* means "to search again." The term connotes patient study and scientific investigation wherein the researcher takes another, more careful look at the data to discover all that is known about the subject. Second, if the Information generated, or the data collected and analyzed, is to be accurate, the marketing researcher must be objective. The need for objectivity was cleverly stated by the 19th-century American humorist Artemus Ward: "It ain't the things we don't know that gets us in trouble. It's the things we know that ain't so." The researcher should be detached and impersonal rather than biased, attempting to support his or her preconceived ideas.

If the research process is contaminated by bias, its value is considerably reduced. As an example, a developer owned a large area of land and wished to build a high-prestige shopping center. The importance of striving for objectivity cannot be overemphasized; without objectivity, research is valueless.

One purpose of conducting marketing research is to develop and evaluate concepts and theories for business

formation. **Basic** or **Pure research** attempts to expand the limits of knowledge. It does not directly involve the solution to a particular pragmatic problem. It has been said that there is nothing as practical as a good theory. Although this is true in the long run, basic marketing research findings generally cannot be immediately implemented by a marketing executive. Basic research is conducted to verify the acceptability of a given theory or to learn more about a certain concept. **Applied research** is conducted when a decision must be made about a specific real life problem.

## MANAGERIAL VALUE OF MARKETING RESEARCH

The primary managerial value of marketing research comes from its ability to reduce uncertainty. It generates information that facilitates decision making about marketing strategies and tactics. Developing and implementing a marketing strategy involves four stages:

1. Identifying and evaluating opportunities.
2. Analyzing market Segments and selecting target markets.
3. Planning and implementing a marketing mix.
4. Analyzing marketing performance.

### Identifying and Evaluating Opportunities:

Before developing a marketing strategy, an organization must determine where it wants to go and how to get there. Marketing research can help answer these questions by investigating potential opportunities to identify attractive areas for Company action. Marketing research may provide diagnostic information about what is occurring in the environment. A simple description of some social or economic activity, such as trends in consumer purchasing behavior, may help managers recognize problems and identify opportunities to enrich marketing efforts. Market opportunities may be evaluated using several performance criteria. In many cases, marketing research supplies the information to determine which opportunities are best for the organization. For example, when market demand is the performance criterion, this information typically is estimated using marketing research techniques. Estimates of market potential or predictions about future environmental conditions allow managers to evaluate the sizes of opportunities. Accurate sales forecasts are among the most useful pieces of planning information a marketing manager can have. Complete accuracy in forecasting the future is not possible because change is constantly occurring in the marketing environment. Nevertheless, objective forecasts of demand or changing environments may be the foundations on which marketing strategies are built.

### Analyzing and Selecting Target Markets:

The second stage of marketing strategy development is to analyze market segments and select target markets. The American Marketing Association found that more than 90 per-cent of the organizations it surveyed engaged in research to determine market characteristics and trends. Marketing research is a major source of information

for determining which market segments' characteristics distinguish them from the overall market.

### Planning and Implementing a Marketing Mix:

Using the information obtained in the two previous stages, marketing managers plan and execute a marketing mix strategy. However, marketing research may be needed to support specific decisions about any aspect of the marketing mix. Often the research is conducted to evaluate an alternative course of action. For example, advertising research investigated whether an actress, one of Hollywood's most beautiful women, would make a good spokesperson for a specific brand of hair coloring. She was filmed in some test commercials to endorse the brand, but the commercials were never aired because, although viewers recognized her as an outstanding personality in the test commercials, they did not perceive her as a user of home hair-coloring kits or as an authority on such products. Managers face many diverse decisions about marketing mixes. The following examples highlight selected types of research that might be conducted for each element of the marketing mix.

**Distribution Research** Manufacturers, wholesalers, and retailers often cooperate to conduct research about the distribution process. A typical study in the distribution area may be conducted to select retail sites or warehouse locations. A survey of retailers or wholesalers may be conducted because the actions of one channel member can greatly affect the performances of other channel members. Distribution research often is needed to gain knowledge about retailers' and wholesalers' operations and/or learn their reactions to a manufacturer's marketing policies.

**Promotion Research** Research that investigates the effectiveness of premiums, coupons, sampling deals, and other sales promotions is classified as promotion research. So is advertising research, which includes buyer motivation studies to generate ideas for copy development, media research, and studies of advertising effectiveness. The marketing research findings of Zale's, a large retailer of jewelry, helped create advertising with large, one-word headlines that simply asked, "Confused?" "Nervous?" or "Lost?" The advertisements overtly acknowledged the considerable emotional and financial risks consumers face in jewelry purchases. Research had shown that typical consumers felt unable to determine the relative quality of various jewelry items, believed jewelry purchases were expensive, and needed reassurance about their purchases, especially because they often purchased jewelry for someone else. Media research helps advertisers decide whether television, newspapers, magazines, or other media alternatives are best suited to convey the advertiser's message. Choices among alternative magazines or television programs may be based on research that shows how many people in the target audience each advertising vehicle can reach.

Marketing research covers a wide range of phenomena. In essence, it fulfills the marketing manager's need for knowledge of the market. The manager of a food Company may ask, "Will a package change improve my brand image?" The sales manager of a sporting goods firm may ask, "How can I monitor my sales and retail trade activities?" A marketing manager in the industrial tools market may ask, "To whom am I losing sales? From whom am I taking sales?" Marketing questions such as these require information about how customers, distributors, and competitors will respond to marketing decisions. Marketing research is one of the principal tools for answering such questions because it links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; to generate, refine, and evaluate marketing actions; to monitor marketing performance; and to improve the understanding of marketing as a process.

The task of marketing research is to help specify and supply accurate information to reduce the uncertainty in decision making. Although marketing research provides information about consumers and the marketplace for developing and implementing marketing plans and strategies, it is not the only source of information. Every day marketing managers translate their experiences with marketing phenomena into marketing strategies.

Information from a manager's experiences frequently is used in an intuitive manner because of the time pressures of business decisions or because the problem does not warrant more formal methods. However, the primary task of marketing management is effective decision making. Flying-by-the-seat-of-the-pants decision making without systematic inquiry—is like betting on a long shot at the racetrack because the horse's name is appealing. Occasionally successes occur, but in the long run intuition without research can lead to disappointing results. Marketing research helps decision makers shift from intuitive information gathering to systematic and objective investigating.

Marketing research is a tool companies use to discover consumers' wants and needs so that they can satisfy those wants and needs with their product offerings. Marketing research is the marketing manager's source of information about market conditions. It covers topics ranging from long-range planning to near-term tactical decisions. Marketing research is the systematic and objective process of generating information— gathering, recording, and analyzing data—to aid marketing decision making.

The research must be systematic, not haphazard. It must be objective to avoid the distorting effects of personal bias. Basic or pure research aims to expand on knowledge of a concept or to verify the acceptability of a theory. Applied research seeks to address specific problems or aid in decisions about particular courses of action. Marketing research is a means of implementing the marketing concept, the most central idea in marketing. The marketing concept says that a firm must be oriented toward both consumer satisfaction and long-run profitability (rather than short-run sales volume). Further, all aspects of the firm need to be integrated to achieve these goals. Managers also use marketing research to determine what went wrong with past marketing efforts, describe current events in the marketplace, or forecast future conditions.

Observation is a powerful tool for the marketing researcher. Scientific observation is the systematic process of recording the behavioral patterns of people, objects, and occurrences without questioning or otherwise communicating with them. A wide variety of information about the behavior of people and objects can be observed. Seven kinds of content are observable: physical actions, verbal behavior, expressive behavior, spatial relations and locations, temporal patterns, physical objects, and verbal and pictorial records. Thus, both verbal and nonverbal messages may be observed.

A major disadvantage of the observation technique is that cognitive phenomena such as attitudes, motivations, expectations, intentions, and preferences are not observable. Further, only overt behavior of short duration can be observed. Nevertheless, many types of data can be obtained more accurately through direct observation than by questioning respondents. Observation is the most direct, and sometimes the only, method for collecting certain data.

Marketing researchers employ both human observers and machines designed for specific observation tasks. Human observation is commonly used when the situation or behavior to be recorded is not easily predictable in advance of the research. Mechanical observation can be used when the situation or behavior to be recorded is routine, repetitive,

or programmatic. Human or mechanical observation may be unobtrusive. Human observation carries the possibility of subjective error even though the observer does not interact with the respondent.

Observation sometimes can be contrived by creating the situations to be observed. This can reduce the time and expense of obtaining reactions to certain circumstances. Contrived observation, hidden observation, and other observation research designs that might use deception often raise ethical concerns about subjects' right to privacy and right to be informed. Physical-trace evidence serves as a visible record of past events. Content analysis obtains data by observing and analyzing the contents of messages in written and/or spoken communications. Content analysis can determine the information content of phenomena. Mechanical observation uses a variety of devices to record behavior directly. Mechanical observation takes many forms. National television audience ratings are based on mechanical observation and computerized data collection. Scanner-based research is growing in popularity because of increased use of laser Scanners in retail Stores. Many syndicated services offer secondary data collected through Scanner Systems. Physiological reactions, such as arousal or eye movement patterns, may be observed using a number of mechanical devices.

### **A SURVEY facts for Marketing Research**

Each stage is important in the interdependent marketing research process. However, a marketing research survey is only as good as the questions it asks. The importance of question wording is easily overlooked, but questionnaire design is one of the most critical stages in the survey research process.

*"A good questionnaire appears as easy to compose as does a good poem. The end product should look as if effortlessly written by an inspired child—but it is usually the result of long, painstaking work."* Businesspeople who are inexperienced in marketing research frequently believe that constructing a questionnaire is a simple task. Amateur researchers find it quite easy to write short questionnaires in a matter of hours. Unfortunately, newcomers who naively believe common sense and good grammar are all one needs to construct a questionnaire generally learn that their hasty efforts are inadequate.

While common sense and good grammar are important in question writing, the art of questionnaire design requires far more. To assume people will understand the questions is a common error. Respondents simply may not know what is being asked. They may be unaware of the product or topic of interest. They may confuse the subject with something else. The question may not mean the same thing to everyone interviewed. Finally, respondents may refuse to answer personal questions. Most of these problems can be minimized. However, if a skilled researcher composes the questionnaire.

## QUESTIONNAIRE DESIGN: AN OVERVIEW OF THE MAJOR DECISIONS

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*Relevance* and *accuracy* are the two basic criteria to meet if a questionnaire is to fulfill a researcher's purposes. To achieve these ends, a researcher who is systematically planning to design a questionnaire will be required to make several decisions, typically, but not necessarily, in the following order:

1. What should be asked?
2. How should questions be phrased?
3. In what sequence should the questions be arranged?
4. What questionnaire layout will best serve the research objectives?
5. How should the questionnaire be pretested? Does the questionnaire need to be revised?

Certain decisions made during the early stages of the research process will influence the questionnaire design. The preceding chapters stressed the need to have a good problem definition and clear objectives for the study. The problem definition will indicate the type of information that must be collected to answer the manager's questions; different types of questions may obtain certain types of information more successfully than others. Further, the communication medium of data collection telephone interview, personal interview, or self-administered questionnaire will have been determined. This decision is another forward linkage that influences the structure and content of the questionnaire. The specific questions to be asked will be a function of the previous decisions. The latter stages of the research process will have an important impact on questionnaire wording. The questions to be asked will, of course, take the form of data analysis into account. When designing the questionnaire, the researcher should consider the types of statistical analysis that will be conducted.

Good questionnaire design is a key to obtaining accurate survey results. The specific questions to be asked will be a function of the type of information needed to answer the manager's questions and the communication medium of data collection. *Relevance* and *accuracy* are the basic criteria for judging questionnaire results. *Relevance* means no unnecessary information is collected and the information needed to solve the marketing problem is obtained. *Accuracy* means the information is reliable and valid.

Knowing how each question should be phrased requires some knowledge about the different types of questions available. Open-ended response questions pose some topic or problem and ask the respondent to answer in his or her own words. Fixed-alternative questions require less interviewer skill, take less time, and are easier to answer. Standardized responses are easier to code, tabulate, and interpret. Care must be taken to formulate the responses so they do not overlap. Respondents whose answers do not fit any of the fixed alternatives may be forced to select alternatives that do not communicate what they really mean.



Open-ended response questions are especially useful in exploratory research or at the beginning of a questionnaire. They are more costly than fixed-alternative questions because of the uniqueness of the answers. Also, interviewer bias can influence the responses to such questions. In fixed alternative questions, the respondent is given specific limited alternative responses and asked to choose the one closest to his or her own viewpoint. Some guidelines for questionnaire construction have emerged from research experience. The language should be simple to allow for variations in education level. Leading or loaded questions suggest answers to the respondents. Other questions induce them to give socially desirable answers. Respondents have a bias against questions that suggest changes in the Status quo. Their reluctance to answer personal questions can be reduced by explaining the need for them and by assuring the respondents of the confidentiality of their replies. The researcher should carefully avoid ambiguity in questions. Another common problem is the double-barreled question, which asks two questions at once.

Question sequence can be very important to the success of a survey. The opening questions should be designed to capture respondents' interest and keep them involved. Personal questions should be postponed to the middle or end of the questionnaire. General questions should precede specific ones. In a series of attitude scales, the first response may be used as an anchor for comparison with the other responses. The order of alternatives on closed questions also can affect the results. Filter questions are useful for avoiding asking unnecessary questions that do not apply to a particular respondent. Such questions may be put into a flowchart for personal or telephone interviewing. The layout of a mail or self-administered questionnaire can affect its response rate. An attractive questionnaire encourages a response, as does a carefully phrased title. Finally, pretesting helps reveal errors while they can still be corrected easily. International marketing researchers must take cultural factors into account when designing questionnaires. The most widespread problem involves translation into another language. International questionnaires are often back translated.



## Survey on Cell Phone Companies in Germany...

Businesses are developing in accordance to the needs of their consumers. It is very vital for firms to identify these needs because it determines their success. With this regard, a survey was conducted to determine the perception of consumers about the critical success factors on T-Mobile, E-Plus, O2 and Vodafone mobile companies.

	Cell Phone Company	Call Cost	Network	Free Talk time	Better Cell Phone	Internet	Overall
1	Vodafone	5	5	5	5	3	92.00%
2	T-Mobile	3	4	2	5	5	76.00%
3	O2	4	3	2	4	4	68.00%
4	E-Plus	3	3	3	4	2	60.00%

Note: Service Measurement. 5 = Excellent, 4 = Very good, 3 = Good, 2 = Moderate, 1 = Below average.

Age categories by choice	Call Cost	Network	Free Talk time	Better Cell Phone	Internet	Overall
11 to 20	*****	****	*****	*****	*	Vodafone
21 to 30	*****	*****	*****	*****	***	Vodafone, T Mobile or O2
31 to 40	****	***	****	*****	***	Vodafone or O2
41 to 50	****	**	****	*	***	Vodafone
51 to 60	***	**	***	*	*	T mobile or E plus

Note: Priority by Choice for selecting Cell Phone service company:

\*\*\*\*\* = 5

\*\*\*\* = 4

\*\*\* = 3

\*\* = 2

\* = 1

## Advertising

Businesses that continue to advertise regardless of economic times have a competitive advantage over businesses that trim their ad budgets. Advertising during a sluggish economy clearly creates a competitive advantage, according to the study, with a majority of executives agreeing that seeing a company advertise during slower times makes them feel more positive about the company's commitment to its products and services. But perhaps most important is staying at the top of buyers' minds when purchase decisions are made.

Add to that the fact that there has been dramatic increases in the time executives spend visiting b-to-b Web sites over the past three years and online advertising is a winning strategy. Moreover, the study findings are consistent across industry sectors, making results relevant regardless of business category. If a company is not communicating with customers when they enter the market, then that company will not be considered in the buying decision. That fundamental truth does not change, regardless of the economy. While many companies readily understand the value of short-term advertising generating new sales, generating repeat business from existing customers and generating new leads that turn into future sales it can be more difficult to comprehend the long-term value. Think of a snowball rolling down a mountain consistent advertising has a cumulative effect. The more familiar buyers are with our brand, the more likely they are to purchase the brand.

*For a small business, every dollar is precious. Small businesses do not advertise for the sake of advertising. Instead, they want to get the most return for their investment. Learn the advantages and disadvantages of each advertising medium that you can use to provide your business the winning edge.*

*Lyve Alexis Pleshette  
PowerHomebiz.com Staff Writer*

If we are ready to get the word out about our business, one of the steps that we need to do is to select the right media where we will advertise and promote our business. For a business, every dollar is precious. Businesses do not advertise for the sake of advertising. Instead, we want to get the most return for our investment. Our advertising campaign should translate to greater sales, more profits and healthier bottom line. While there are a number of venues where we can promote our business, we need to ask three important questions:

- Where are our target buyers?
- What is the best medium to reach them?
- Can we afford to launch an effective campaign using this medium?

An important step to developing our sales and marketing plan is to select the right media to send out our

message. There are no hard-and-fast rules as to which media is better. The right media for one business may be wrong for another.

**Newspapers.** Newspapers are one of the traditional mediums used by businesses, both big and small alike, to advertise their businesses.

#### Advantages

- Allows us to reach a huge number of people in a given geographic area.
- We have the flexibility in deciding the ad size and placement within the newspaper.
- Our ad can be as large as necessary to communicate as much of a story as we care to tell.
- Exposure to our ad is not limited; readers can go back to our message again and again if so desired.
- Free help in creating and producing ad copy is usually available.
- Quick turn-around helps our ad reflect the changing market conditions. The ad we decide to run today can be in our customers' hands in one to two days.

#### Disadvantages

- Ad space can be expensive.
- Our ad has to compete against the clutter of other advertisers, including the giants ads run by supermarkets and department stores as well as the ads of our competitors.
- Poor photo reproduction limits creativity.
- Newspapers are a price-oriented medium; most ads are for sales.
- Expect our ad to have a short shelf life, as newspapers are usually read once and then discarded.
- We may be paying to send our message to a lot of people who will probably never be in the market to buy from us.
- Newspapers are a highly visible medium, so our competitors can quickly react to our prices.
- With the increasing popularity of the Internet, newspapers face declining readership and market penetration. A growing number of readers now skip the print version of the newspaper (and hence the print ads) and instead read the online version of the publication.

**Magazines.** Magazines are a more focused, albeit more expensive, alternative to newspaper advertising. This medium allows you to reach highly targeted audiences.

#### Advantages:

Allows for better targeting of audience, as we can choose magazine publications that cater to our specific audience or whose editorial content specializes in topics of interest to our audience. High reader involvement means that more attention will be paid to our advertisement.

Disadvantages:

- Long lead times mean that we have to make plans weeks or months in advance.
- The slower lead time heightens the risk of our ad getting overtaken by events.
- There is limited flexibility in terms of ad placement and format.
- Space and ad layout costs are higher.

Yellow Pages. There are several forms of Yellow Pages that we can use to promote and advertise our business. Aside from the traditional Yellow Pages supplied by phone companies, we can also check out specialized directories targeted to specific markets (e.g. Hispanic Yellow Pages, Blacks, etc.); interactive or consumer search databases; Audiotex or talking yellow pages; Internet directories containing national, local and regional listings; and other services classified as Yellow Pages.

Advantages

- Wide availability, as mostly everyone uses the Yellow Pages.
- Non-intrusive.
- Action-oriented, as the audience is actually looking for the ads.
- Ads are reasonably inexpensive.
- Responses are easily tracked and measured.
- Frequency.

Disadvantages

- Pages can look cluttered, and our ad can easily get lost in the clutter.
- Our ad is placed together with all our competitors.
- Limited creativity in the ads, given the need to follow a predetermined format.
- Ads slow to reflect market changes

Radio:

Advantages

- Radio is a universal medium enjoyed by people at one time or another during the day, at home, at work, and even in the car.
- The vast array of radio program formats offers to efficiently target our advertising dollars to narrowly defined segments of consumers most likely to respond to our offer.
- Gives your business personality through the creation of campaigns using sounds and voices.
- Free creative help is often available.
- Rates can generally be negotiated.
- During the past ten years, radio rates have seen less inflation than those for other media

#### Disadvantages

- Because radio listeners are spread over many stations, we may have to advertise simultaneously on several stations to reach our target audience.
- Listeners cannot go back to our ads to go over important points.
- Ads are an interruption in the entertainment. Because of this, a radio ad may require multiple exposure to break through the listener's "tune-out" factor and ensure message retention.
- Radio is a background medium. Most listeners are doing something else while listening, which means that our ad has to work hard to get their attention

#### Television:

##### Advantages

- Television permits us to reach large numbers of people on a national or regional level in a short period of time.
- Independent stations and cable offer new opportunities to pinpoint local audiences.
- Television being an image-building and visual medium, it offers the ability to convey our message with sight, sound and motion.

##### Disadvantages

- Message is temporary, and may require multiple exposure for the ad to rise above the clutter.
- Ads on network affiliates are concentrated in local news broadcasts and station breaks.
- Preferred ad times are often sold out far in advance.
- Limited length of exposure, as most ads are only thirty seconds long or less, which limits the amount of information we can communicate.

- Relatively expensive in terms of creative, production and airtime costs.

Direct Mail. Direct mail, often called direct marketing or direct response marketing, is a marketing technique in which the seller sends marketing messages directly to the buyer. Direct mail include catalogs or other product literature with ordering opportunities; sales letters; and sales letters with brochures.

#### Advantages

- Our advertising message is targeted to those most likely to buy our product or service.
- Marketing message can be personalized, thus helping increase positive response.
- Our message can be as long as is necessary to fully tell our story.
- Effectiveness of response to the campaign can be easily measured.
- We have total control over the presentation of our advertising message.
- Our ad campaign is hidden from our competitors until it's too late for them to react.
- Active involvement - the act of opening the mail and reading it -- can be elicited from the target market.

#### Disadvantages

- Some people do not like receiving offers in their mail, and throw them immediately without even opening the mail.
- Resources need to be allocated in the maintenance of lists, as the success of this kind of promotional campaign depends on the quality of our mailing list.
- Long lead times are required for creative printing and mailing.
- Producing direct mail materials entail the expense of using various professionals - copywriter, artists, photographers, printers, etc.
- Can be expensive, depending on our target market, quality of our list and size of the campaign.

Telemarketing. Telephone sales, or telemarketing, is an effective system for introducing a company to a prospect and setting up appointments.

#### Advantages

- Provides a venue where we can easily interact with the prospect, answering any questions or concerns they may have about our product or service.
- It's easy to prospect and find the right person to talk to.
- It's cost-effective compared to direct sales.

- Results are highly measurable.
- We can get a lot of information across if our script is properly structured.
- If outsourcing, set-up cost is minimal.
- Increased efficiency since we can reach many more prospects by phone than we can with in-person sales calls.
- Great tool to improve relationship and maintain contact with existing customers, as well as to introduce new products to them.
- Makes it easy to expand sales territory as the phone allows us to call local, national and even global prospects.

#### Disadvantages

- An increasing number of people have become averse to telemarketing.
- More people are using technology to screen out unwanted callers, particularly telemarketers.
- Government is implementing tougher measures to curb unscrupulous telemarketers.
- Lots of businesses use telemarketing.
- If hiring an outside firm to do telemarketing, there is lesser control in the process given that the people doing the calls are not your employees.
- May need to hire a professional to prepare a well-crafted and effective script.
- It can be extremely expensive, particularly if the telemarketing is outsourced to an outside firm.
- It is most appropriate for high-ticket retail items or professional services.

Specialty Advertising. This kind of advertising entails the use of imprinted, useful, or decorative products called advertising specialties, such as key chains, computer mouse, mugs, etc. These articles are distributed for free; recipients need not purchase or make a contribution to receive these items.

#### Advantages

- Flexibility of use.
- High selectivity factor as these items can be distributed only to the target market.
- If done well, target audience may decide to keep the items, hence promoting long retention and constant exposure.

- Availability of wide range of inexpensive items that can be purchased at a low price.
- They can create instant awareness.
- They can generate goodwill in receiver.
- The items can be used to supplement other promotional efforts and media (e.g. distributed during trade shows).

#### Disadvantages

- Targeting your market is difficult.
- This can be an inappropriate medium for some businesses.
- It is difficult to find items that are appropriate for certain businesses.
- Longer lead time in developing the message and promotional product.
- Possibility of saturation in some items and audiences.
- Wrong choice of product or poor creative may cheapen the image of advertiser.



## Financial Concepts

Financial management is the broadest of the three areas, and the one with the most Job opportunities. Financial management is important in all types of businesses, including banks and other financial institutions, as well as industrial and retail firms. Financial management is also important in governmental operations, from schools to hospitals to highway departments. The Job opportunities in financial management range from making decisions regarding plant expansions to choosing what types of securities to issue when financing expansion. Financial managers also have the responsibility for deciding the credit terms under which customers may buy, how much inventory the firm should carry, how much cash to keep on hand, whether to acquire other firms (merger analysis), and how much of the firm's earnings to plow back into the business versus pay out as dividends.

Regardless of which area a finance major enters, we need a knowledge of all three areas. For example, a bank lending officer cannot do his or her Job well without a good understanding of financial management, because he or she must be able to judge how well a business is being operated. But suppose we do not plan to major in finance. Is the subject still important to us? Absolutely, for two reasons: (1) We need a knowledge of finance to make many personal decisions, ranging from investing for our retirement to deciding whether to lease versus buy a car. (2) Virtually all important business decisions have financial implications, so important decisions are generally made by teams from the accounting, finance, legal, marketing, personnel, and production departments. Therefore, if we want to succeed in the business arena, we must be highly competent in our own area, say, marketing, but we must also have a familiarity with the other business disciplines, including finance.

Here are some specific activities:

1. **Forecasting and planning.** The financial management must coordinate the planning process. This means it must interact with people from other departments by showing images of financial factors to shape the firm's future.
2. **Major Investment and financing decisions.** A successful firm usually has rapid growth in sales, which requires Investments in plant, equipment, and inventory. The financial management must help determine the optimal sales growth rate, help decide what specific assets to acquire, and then choose the best way to finance those assets. For example, should the firm finance with debt, equity, or some combination of the two, and if debt is used, how much should be long term and how much short term?
3. **Coordination and control.** The financial staff must interact with other personnel to ensure that the firm is operated as efficiently as possible. All business decisions have financial implications, and all managers—financial and otherwise need to take this into account. For example, marketing decisions affect sales growth, which in turn influences investment requirements. Thus, marketing decision makers must take account of how their actions affect and are affected by such factors as the availability of funds, inventory policies, and plant capacity utilization.
4. **Dealing with the financial markets.** The financial staff must deal with the money and capital markets. Firm affects and is affected by the general financial markets where funds are raised, where the firm's securities are traded, and where Investors either make or lose money.

5. **Risk management.** All businesses face risks, including natural disasters such as fires and floods, uncertainties in commodity and security markets, volatile interest rates, and fluctuating foreign exchange rates. However, many of these risks can be reduced by purchasing insurance or by hedging in the derivatives markets. The financial staff is responsible for the firm's overall risk management program, including identifying the risks that should be managed and then managing them in the most efficient manner.

In summary, people working in financial management make decisions regarding which assets their firms should acquire, how those assets should be financed, and how the firm should conduct its operations. If these responsibilities are performed optimally, financial managers will help to maximize the values of their firms, and this will also contribute to the welfare of consumers and employees.

### Financial Statements...

Financial Statements are pieces of paper with numbers written on them, but it is important to also think about the real assets that underlie the numbers. If we understand how and why accounting began, and how financial Statements are used, we can better visualize what is going on, and why accounting information is so important. Thousands of years ago, individuals (or families) were self-contained in the sense that they gathered their own food, made their own clothes, and built their own shelters. Then specialization began some people became good at making pots, others at making arrowheads, others at making clothing, and so on.

As specialization began, so did trading, initially in the form of barter. At first, each artisan worked alone, and trade was strictly local. Eventually, though, master crafts-men set up small factories and employed workers, money (in the form of clamshells) began to be used, and trade expanded beyond the local area. As these developments occurred, a primitive form of banking began, with wealthy merchants lending profits from past dealings to enterprising factory owners who needed capital to expand or to young traders who needed money to buy wagons, ships, and merchandise.

When the first loans were made, lenders could physically inspect borrowers' assets and judge the likelihood of the loan's being repaid. Eventually, though, lending became more complex—borrowers were developing larger factories, traders were acquiring fleets of ships and wagons, and loans were being made to develop distant mines and trading posts. At that point, lenders could no longer personally inspect the assets that backed their loans, and they needed some way of summarizing borrowers' assets. Also, some Investments were made on a share-of-the-profits basis, and this meant that profits (or income) had to be determined. At the same time, factory owners and large merchants needed reports to see how effectively their own enterprises were being run, and governments needed information for use in assessing taxes. For all these reasons, a need arose for financial Statements, for accountants to prepare those Statements, and for auditors to verify the accuracy of the accountants' work.

The economic System has grown enormously since its beginning, and accounting has become more complex. However, the original reasons for financial Statements still apply: Bankers and other Investors need accounting information to make intelligent decisions, managers need it to operate their businesses efficiently, and taxing authorities need it to assess taxes in a reasonable way. It should be intuitively clear that it is not easy to translate

physical assets into numbers, which is what accountants do when they construct financial Statements. The numbers shown on balance sheets generally represent the historical costs of assets.

However, inventories may be spoiled, obsolete, or even missing; fixed assets such as machinery and buildings may have higher or lower values than their historical costs; and accounts receivable may be noncollectable. Also, some liabilities such as obligations to pay retirees' medical costs may not even show up on the balance sheet. Similarly, some costs reported on the income Statement may be understated, as would be true if a plant with a useful life of 10 years were being depreciated over 40 years. When you examine a set of financial Statements, you should keep in mind that a physical reality lies behind the numbers, and you should also realize that the translation from physical assets to "correct" numbers is far from precise.

As mentioned previously, it is important for accountants to be able to generate financial Statements, while others involved in the business need to know how to interpret them. Particularly, financial managers must have a working knowledge of financial Statements and what they reveal to be effective. Spreadsheets provide financial managers with a powerful and reliable tool to conduct financial analysis, and several different types of spreadsheet models are provided with the text. These models demonstrate how financial principles taught in this book are applied in practice. Readers are encouraged to use these models to gain further insights into various concepts and procedures.

Of the various reports corporations issue to their stockholders, the *annual report* is probably the most important. Two types of information are given in this report. First, there is a verbal section, often presented as a letter from the chairman, that describes the firm's operating results during the past year and discusses new developments that will affect future operations. Second, the annual report presents four basic financial Statements—the *balance sheet*, the *income Statement*, the *Statement of retained earnings*, and the *Statement of cash flows*. Taken together, these Statements give an accounting picture of the firm's operations and financial position.

Financial management seeks to plan for the future such that a personal or business entity has a positive flow of cash. The term 'financial management' has a number of meanings including the administration and maintenance of financial assets. The process of financial management may also include identifying and trying to work around the various risks to which a particular project may be exposed. Some experts refer to financial management as the science of money management – the primary usage of the term being in the world of financing business activities. However, the process of financial management is important at all levels of human existence, because every entity needs to look after its finances.

## Budgeting

A budget is a detailed plan for acquiring and using financial and other resources over a specified time period. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting. The use of budgets to control a firm's activities is known as budgetary control. The master budget is a summary of a company's plans that sets specific targets for sales, production, distribution, and financing activities. It generally culminates in a cash budget, a budgeted income Statement, and a budgeted balance sheet. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

Nearly everyone budgets to some extent, even though many of the people who use budgets do not recognize what they are doing as budgeting. For example, most people make estimates of their income and plan expenditures for food, clothing, housing, and so on. As a result of this planning, people restrict their spending to some predetermined, allowable amount. While they may not be conscious of the fact, these people clearly go through a budgeting process. Income is estimated, expenditures are planned, and spending is restricted in accordance with the plan. Individuals also use budgets to forecast their future financial condition for purposes such as purchasing a home, financing College education, or setting aside funds for retirement. These budgets may exist only in the mind of the individual, but they are budgets nevertheless. The budgets of a business or other organization serve much the same functions as the budgets prepared in formally by individuals. Business budgets tend to be more detailed and to involve more work, but they are similar to the budgets prepared by individuals in most other respects. Like personal budgets, they assist in planning and controlling expenditures: they also assist in predicting operating results and financial condition in future periods.

### Advantages of Budgeting..

Companies realize many benefits from a budgeting program. Among these benefits are the following: Budgets provide a means of communicating management's plans throughout the organization.

1. Budgets force managers to think about and plan for the future. In the absence of the necessity to prepare a budget, many managers would spend all of their time dealing with daily emergencies.
2. The budgeting process provides a means of allocating resources to those parts of the organization where they can be used most effectively.
3. The budgeting process can uncover potential bottlenecks before they occur.
4. Budgets coordinate the activities of the entire organization by integrating the plans of the various parts. Budgeting helps to ensure that everyone in the organization is pulling in the same direction.
5. Budgets define goals and objectives that can serve as benchmarks for evaluating subsequent performance.

The success of a budget program will be determined in large part by the way in which the budget is developed. In the most successful budget programs, managers with cost control responsibilities actively participate in preparing their own budgets. This is in contrast to the approach in which budgets are imposed from above. The participative approach to preparing budgets is particularly important if the budget is to be used to control and evaluate a manager's performance. If a budget is imposed on a manager from above, it will probably generate resentment and ill will rather than cooperation and commitment.

### Human Factors in Budgeting

The success of a budget program also depends on (1) the degree to which top management accepts the budget program as a vital part of the company's activities, and (2) the way in which top management uses budgeted data. If a budget program is to be successful, it must have the complete acceptance and support of the persons who occupy key management positions. If lower or middle management personnel sense that top management is lukewarm about budgeting, or if they sense that top management simply tolerates budgeting as a necessary evil, then their own attitudes will reflect a similar lack of enthusiasm.

Budgeting is hard work, and if top management is not enthusiastic about and committed to the budget program, then it is unlikely that anyone else in the organization will be either. In administering the budget program, it is particularly important that top management not use the budget as a club to pressure employees or as a way to find someone to blame if something goes wrong. Using budgets in such negative ways will breed hostility, tension, and mistrust rather than greater cooperation and productivity. Unfortunately, the budget is too often used as a pressure device and great emphasis is placed on "meeting the budget" under all circumstances. Rather than being used as a weapon, the budget should be used as a positive instrument to assist in establishing goals, in measuring operating results, and in isolating areas that are in need of extra effort or attention. Any misgivings that employees have about a budget program can be overcome by meaningful involvement at all levels and by proper use of the program over time. Administration of a budget program requires a great deal of insight and sensitivity on the part of management. The budget program should be designed to be a positive aid in achieving both individual and Company goals.

Management must keep clearly in mind that the human aspect of budgeting is of key importance. It is easy to become preoccupied with the technical aspects of the budget to the exclusion of the human aspects. Indeed, the use of budget data in a rigid and inflexible manner is often the greatest single complaint of persons whose performance is evaluated using budgets. Management should remember that the purposes of the budget are to motivate employees and to coordinate efforts. Preoccupation with the dollars and cents in the budget, or being rigid and inflexible, can only lead to frustration of these purposes.

## Allocating Budget...

Most large organizations have both operating and service departments. The central purposes of the organization are carried out in the operating departments. In contrast, service departments do not directly engage in operating activities. Instead, they provide Services or assistance to the operating departments.

The costs incurred by service departments are usually allocated to the operating departments, and from the operating departments to products and Services. Several different allocation methods will be considered in this chapter. The method that is selected can have a significant impact on the computed costs of goods and Services and can affect an operating department's performance evaluation. Allocations Using the Direct and Step Methods Regardless of the allocation method that is ultimately selected, an allocation base must be selected for each service department.

### Selecting Allocation Bases

Costs are ordinarily assigned to products and Services by using a two-stage process. In the first stage, service department and other costs are allocated to operating departments. In the second stage, the costs that have been assigned to operating departments are allocated to products and Services. We focus on the first stage, in which service department costs are allocated to operating departments. In the first stage, service department costs are allocated to operating departments by using a unique allocation base for each service department. The allocation base that is used to allocate a particular service department's costs should "drive" those costs. For example, the number of meals served would commonly be used as the allocation base for Cafeteria costs because the costs incurred in the Cafeteria are driven to a large extent by the number of meals served. Ideally, the total cost incurred in the service department should be directly proportional to the allocation base. If the allocation base increases or decreases by 10%, the service department cost should increase or decrease by 10% as well. Managers also often argue that an allocation base should reflect as accurately as possible the benefits that the various departments receive from the service department.

For example, most managers would argue that the square feet of building space occupied by each operating department should be used as the allocation base for janitorial Services because both the benefits and costs of janitorial Services tend to be proportional to the amount of space occupied by a department. For example, data processing costs may be allocated on the basis of CPU minutes for mainframe Computers and on the basis of the number of personal Computers used in each operating department. Although the previous paragraph explains how to select an allocation base, another critical factor should not be overlooked. The allocations should be clear and straight-forward and easily understood by the managers to whom the costs are being allocated.

**Direct Method:** The direct method is the simplest of the three cost allocation methods. It ignores the Services provided by a service department to other service departments and allocates all of its costs directly to operating departments. Even if a service department (such as Personnel) provides a large amount of service to another service department (such as the Cafeteria), no allocations are made between the two departments. Rather, all costs are allocated directly to the operating departments, bypassing the other service departments. hence the term direct method.

**Step Method:** Unlike the direct method, the step method provides for allocation of a service department's costs to other service departments, as well as to operating departments. The step method is sequential. The sequence typically begins with the department that provides the greatest amount of service to other service departments. After its costs have been allocated, the process continues, step by step, ending with the department that provides the least amount of Services to other service departments.

**Reciprocal method:** The reciprocal method gives full recognition to interdepartmental services. Under the step method discussed above only partial recognition of interdepartmental services is possible. The step method always allocates costs forward- never backward. The reciprocal method, by contrast, allocates Service department costs in both directions. Examples of the reciprocal method can be found in more advanced cost accounting texts. The reciprocal method is rarely used in practice for two reasons.

First, the computations are relatively complex. Although the complexity issue could be overcome by use of Computers, there is no evidence that Computers have made the reciprocal method more popular. Second, the Step method usually provides results that are a reasonable approximation of the results that the reciprocal method would provide. Thus, companies have little motivation to use the more complex reciprocal method. It is important to note that even though most Service departments are cost centers and therefore generate no revenues, a few service departments such as the Cafeteria may Charge for the Services they perform. If a service department generates revenues, those revenues should be offset against the department's costs, and only the net amount of cost remaining after this offset should be allocated to other departments within the organization. In this manner, the other departments will not be required to bear costs for which the service department has already been reimbursed.

**Effect of Allocations on Operating Departments:** Once allocations have been completed, what do the operating departments do with the allocated service department costs? The allocations are typically included in performance evaluations of the operating departments and also included in determining their profitability. In addition, if the operating departments are responsible for developing overhead rates for costing products or Services, then the allocated costs are combined with the other costs of the operating departments, and the total is used as a basis for rate computations.

This rate development process is illustrated in Exhibit 15-5 below.



Vodafone Company  
Budget – Human Resource Department

Budgeted direct labor hours ..... 50,000

	Cost formula (Per direct labor hour)	Overhead
Variable overhead costs		
Indirect labor .....	\$ 1.45	\$ 72,500
Indirect material .....	0.90	45,000
Utilities .....	0.10	5,000
Allocation Places .....	0.15	7,500
Total Variable overhead cost	\$ 2.60	\$ 130,000
Fixed overhead costs:		
Depreciation		85,000
Supervisory salaries		110,000
Property Taxes		9,000
Allocation HRM		66,000
Total Fixed overhead cost		270,000
<b>Total overhead cost</b>		<b>\$ 400,000</b>

Predetermined overhead rate :  $\frac{\$ 400,000}{50,000} = \$ 8$  per direct labor hour.

The budget serves as the means for combining allocated service department costs with operating department costs and for Computing overhead rates. An example is presented in Exhibit 15-6. Note from the exhibit that both variable and fixed service department costs have been allocated to Vodafone Company's HRM Department and are included on the latter's budget. since allocated service department costs become an integral part of the budget, they are automatically included in overhead rate computations. Service departments are organized to provide some needed service in a single, centralized place, rather than have all units within the organization provide the Service for themselves. Although Service departments do not engage directly in production or other operating activities, the costs that they incur are vital to the overall success of an organization and therefore are properly included as part of the cost of its products and Services.

Service department costs are charged to operating departments by an allocation process. In turn, the operating departments include the allocated costs in their budgets, from which overhead rates are computed for purposes of costing of products or Services. Variable and fixed service department costs should be allocated separately. The variable costs should be allocated according to whatever activity causes their incurrence. The fixed costs should be allocated in predetermined lump-sum amounts according to either the peak-period or the long-run average servicing needs of the consuming departments. Budgeted costs, rather than actual costs, should always be allocated. If actual costs are allocated, the operating departments would be implicitly held responsible for any inefficiency in the Service departments. Any variances between budgeted and actual Service department costs should be kept within the Service departments and should be the responsibility of the service department managers.



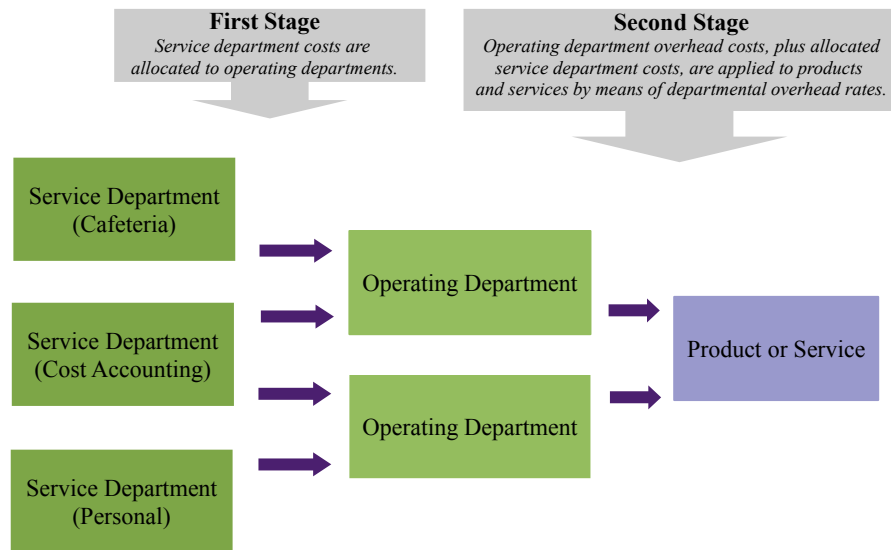


Figure 1.2 : Allocating Developing Process.

There are several concepts to understand accounting concepts to organize business functions to achieve business goal and for future prospect. These are;

### Planning

The first step in planning is to identify alternatives and then to select from among the alternatives the one that does the best Job of furthering the organization's objectives. The basic objective of Good Vibrations, Inc, is to earn profits for the owners of the Company by providing superior Service at competitive prices in as many markets as possible. To further this objective, every year top management carefully considers a range of options, or alternatives, for expanding into new geographic markets. This year management is considering opening new stores in Shanghai, Los Angeles, and Auckland.

When making this and other choices, management must balance the opportunities against the demands made on the company's resources. Management knows from bitter experience that opening a store in a major new market is a big step that cannot be taken lightly. It requires enormous amounts of time and energy from the company's most experienced, talented, and busy Professionals. When the Company attempted to open stores in both Beijing and Vancouver in the same year, resources were stretched too thinly. The result was that neither store opened on schedule, and operations in the rest of the Company suffered. Therefore, entering new markets is planned very, very carefully.

Among other data, top management looks at the sales volumes, profit margins, and costs of the company's established stores in similar markets. These data, supplied by the management accountant, are combined with projected sales volume data at the proposed new locations to estimate the profits that would be generated by the

new stores. In general, virtually all important alternatives considered by management in the planning process have some effect on revenues or costs, and management accounting data are essential in estimating those effects. After considering all of the alternatives, Good Vibrations, Inc.'s top management decided to open a store in the burgeoning Shanghai market in the third quarter of the year, but to defer opening any other new stores to another year. As soon as this decision was made, detailed plans were drawn up for all parts of the Company that would be involved in the Shanghai opening. For example, the Personnel Department's travel budget was increased, since it would be providing extensive on-site training to the new personnel hired in Shanghai.

As in the Personnel Department example, the plans of management are often expressed formally in budgets, and the term budgeting is applied to generally describe this part of the planning process. Budgets are usually prepared under the direction of the Controller, who is the manager in charge of the Accounting Department. Typically, budgets are prepared annually and represent management's plans in specific, quantitative terms. In addition to a travel budget, the Personnel Department will be given goals in terms of new hires, courses taught, and detailed breakdowns of expected expenses. Similarly, the manager of each store will be given a target for sales volume, profit, expenses, pilferage losses, and employee training. These data will be collected, analyzed, and summarized for management use in the form of budgets prepared by management accountants.

### Directing and Motivating

In addition to planning for the future, managers must oversee day-to-day activities and keep the organization functioning smoothly. This requires the ability to motivate and effectively direct people. Managers assign tasks to employees, arbitrate disputes, answer questions, solve on-the-spot problems, and make many small decisions that affect customers and employees. In effect, directing is that part of the managers' work that deals with the routine and the here and now. Managerial accounting data, such as daily sales reports, are often used in this type of day-to-day decision making.

### Controlling

In carrying out the control function, managers seek to ensure that the plan is being followed. Feedback, which signals whether operations are on track, is the key to effective control. In sophisticated organizations, this feedback is provided by detailed reports of various types. One of these reports, which compares budgeted to actual results, is called a performance report. Performance reports suggest where operations are not proceeding as planned and where some parts of the organization may require additional attention. For example, before the opening of the new Shanghai store in the third quarter of the year, the store's manager will be given sales volume, profit, and expense targets for the fourth quarter of the year.

As the fourth quarter progresses, periodic reports will be made in which the actual sales volume, profit, and expenses are compared to the targets. If the actual results fall below the targets, top management is alerted that the Shanghai store requires more attention. Experienced personnel can be flown in to help the new manager, or top management may come to the conclusion that plans will have to be revised. As we shall see in following chapters, providing this kind of feedback to managers is one of the central purposes of managerial accounting.

### Results of Managers' Activities

As a customer enters one of the Good Vibrations stores, the results of management's planning, directing and motivating, and controlling activities will be evident in the many details that make the difference between a pleasant and an irritating Shopping experience. The store will be clean, fashionably decorated, and logically laid out. Featured artists' videos will be displayed on TV monitors throughout the store, and the background rock music will be loud enough to send older patrons scurrying for the classical music section. Popular CDs will be in stock, and the latest hits will be available for private listening on earphones. Specific titles will be easy to find. Regional music, such as Canto Pop in Hong Kong, will be prominently featured. Checkout clerks will be alert, friendly, and efficient. In short, what the customer experiences doesn't simply happen; it is the result of the efforts of managers who must visualize and fit together the processes that are needed to get the Job done.

### Emphasis on the Future

Since, planning is such an important part of the manager's Job, managerial accounting has a strong future orientation. In contrast, financial accounting primarily provides summaries of past financial transactions. These summaries may be useful in planning, but only to a point. The future is not simply a reflection of what has happened in the past. Changes are constantly taking place in economic conditions, customer needs and desires, competitive conditions, and so on.

## CAPITAL BUDGETING

Capital budgeting (or investment appraisal) is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing. Capital Budgeting is an extremely important aspect of a firm's financial management. Although capital assets usually comprise a smaller percentage of a firm's total assets than do current assets, capital assets are longterm. Therefore, a firm that makes a mistake in its capital budgeting process has to live with that mistake for a long period of time. A number of factors combine to make capital budgeting perhaps the most important function financial managers and their staffs must perform. First, since the results of capital budgeting decisions continue for many years, the firm loses some of its flexibility. For example, the purchase of an asset with an economic life of 10 years "locks in" the firm for a 10-year period. Further, because asset expansion is based on expected future sales, a decision to buy an asset that is expected to last 10 years re-quires a 10-year sales forecast.

Finally, a firm's capital budgeting decisions define its Strategic direction, because moves into new products, Services, or markets must be preceded by capital expenditures. An erroneous forecast of asset requirements can have serious consequences. If the firm invests too much, it will incur unnecessarily high depreciation and other expenses. On the other hand, if it does not invest enough, two problems may arise.

Effective capital budgeting can improve both the timing and the quality of asset acquisitions. If a firm forecasts its needs for capital assets in advance, it can purchase and install the assets before they are needed. Unfortunately, many firms do not order capital goods until existing assets are approaching full-capacity usage. If sales increase because of an increase in general market demand, all firms in the industry will tend to order capital goods at about the same time. This results in backlogs, long waiting times for machinery, a deterioration in the quality of the capital equipment, and an increase in costs. The firm that foresees its needs and purchases

capital assets during slack periods can avoid these problems.

Note, though, that if a firm forecasts an increase in demand and then expands to meet the anticipated demand, but sales do not increase, it will be saddled with excess capacity and high costs, which can lead to losses or even bankruptcy. Thus, an accurate sales forecast is critical. Capital budgeting typically involves substantial expenditures, and before a firm can spend a large amount of money, it must have the funds lined up—large amounts of money are not available automatically. Therefore, a firm contemplating a major capital expenditure program should plan its financing far enough in advance to be sure funds are available.

The main aim of accounting is to improve the efficiency and quality of operations by providing program owners and all others with suitable and applicable cost based performance information to permit for nonstop improvement in distributing the output to outcome the stockholders. Accounting has been developed and used with all from the beginning times to help all the directors to understand the costs of running a project. Modern accounting is created during the industrial revolution during the difficulties of running a large scale business which show the way to the development of scheme for recording and checking costs to help business proprietors and managers to finalize and make conclusions.

So, to conclude, for any business unit starting from the smallest business activity to the largest multinational business to be succeeded requires the use of accounting concept and practices. This accounting provides data to owners for preparation and scheming of rating products and services for customers too. The main focus of accounting is to help the managers for making better decisions. Because of all these reasons, businesses and organizations hire on accountants and thereby, they are becoming integral persons of decision making teams instead of just data providers.

## Business Ethics for Fundamental of Organizational Laws

Many businesses have gained a bad reputation just by being in business. To some people, businesses are interested in making money, and that is the bottom line. It could be called capitalism in its purest form. Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behavior. Good business ethics should be a part of every business. There are many factors to consider. When a company does business with another that is considered unethical, does this make the first company unethical by association? Some people would say yes, the first business has a responsibility and it is now a link in the chain of unethical businesses. Many global businesses, including most of the major brands that the public use, can be seen not to think too highly of good business ethics.

Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor. If a company does not adhere to business ethics and breaks the laws, they usually end up being fined. Many companies have broken anti-trust, ethical and environmental laws and received fines worth millions. The problem is that the amount of money these companies are making outweighs the fines applied. Billion dollar profits blind the companies to their lack of business ethics, and the dollar sign wins.

A business may be a multi-million seller, but does it use good business ethics and do people care? There are popular soft drinks and fast food restaurants that have been fined time and time again for unethical behavior. Business ethics should eliminate exploitation, from the sweat shop children who are making sneakers to the coffee serving staff who are being ripped off in wages. Business ethics can be applied to everything from the trees cut down to make the paper that a business sells to the ramifications of importing coffee from certain countries. In the end, it may be up to the public to make sure that a company adheres to correct business ethics. If the company is making large amounts of money, they may not wish to pay too close attention to their ethical behavior. There are many companies that pride themselves in their correct business ethics, but in this competitive world, they are becoming very few and far between.

We can define morality as the standards that an individual or group has about what is right and wrong, or good and evil. Moral Standards include the norms we have about the kinds of actions we believe are morally right and wrong as well as the values we place on the kinds of objects we believe are morally good and morally bad. Moral norms can usually be expressed as general rules or Statements, such as "Always tell the truth," "It is wrong to kill innocent people," or "Actions are right to the extent that they produce happiness." Moral values can usually be expressed as Statements describing objects or features of objects that have worth, such as "Honesty is good" and "Injustice is bad." Where do these Standards come from?

Typically a person's moral Standards are first absorbed as a child from family, friends, and various societal influences such as church, school, television, magazines, music, and associations. Later, as the person grows up, experience, learning, and intellectual development may lead the maturing person to revise these Standards. Some are discarded, and new ones may be adopted to replace them. Hopefully, through this maturing process, the person will develop Standards that are more intellectually adequate and so more suited for dealing with the moral dilemmas of adult life.

Moral Standards can be contrasted with Standards we hold about things that are not moral. Examples of non

moral Standards include the Standards of etiquette by which we judge manners as good or bad, the Standards we call the law by which we judge legal right and wrong, the Standards of language by which we judge what is grammatically right and wrong, the Standards of aesthetics by which we judge good and bad art, and the athletic Standards by which we judge how well a game of football or basketball is being played. In fact, whenever we make judgments about the right or wrong way to do things, or judgments about what things are good or bad, our judgments are based on Standards of some kind.

## The Concept of Right

In general, a right is an individual's entitlement to something. A person has a right when that person is entitled to act in a certain way or is entitled to have others act in a certain way toward him or her. The entitlement may derive from a legal System that permits or empowers the person to act in a specified way or that requires others to act in certain ways toward that person; the entitlement is then called a legal right. The American Constitution, for example, guarantees all citizens the right to freedom of speech, and commercial Statutes specify that each party to a valid contract has a right to whatever performance the contract requires from the other person. Legal rights are limited, of course, to the particular jurisdiction within which the legal System is in force.

Entitlements can also derive from a system of moral Standards independently of any particular legal system. The right to work, for example, is not guaranteed by the American Constitution, but many argue that this is a right that all human beings possess. Such rights, which are called moral rights or human rights, are based on moral norms and principles that specify that all human beings are permitted or empowered to do something or are entitled to have something done for them. Moral rights, unlike legal rights, are usually thought of as being universal insofar as they are rights that all human beings of every nationality possess to an equal extent simply by virtue of being human beings. Unlike legal rights, moral rights are not limited to a particular jurisdiction. If humans have a moral right not to be tortured, for example, then this is a right that human beings of every nationality have regardless of the legal system under which they live. Rights are powerful devices whose main purpose is to enable the individual to choose freely whether to pursue certain interests or activities and to protect those choices. In our ordinary discourse, we use the term right to cover a variety of situations in which individuals are enabled to make such choices in very different ways.

First, we sometimes use the term right to indicate the mere absence of prohibitions against pursuing some interest or activity. For example, I have a right to do whatever the law or morality does not positively forbid me to do. In this weak sense of a right, the enabling and protective aspects are minimal. Second, we sometimes use the term right to indicate that a person is authorized or empowered to do something either to secure the interests of others or to secure one's interests. An army or police officer, for example, acquires legal rights of command over subordinates that enable the officer to pursue the security of others, whereas a property owner acquires legal property rights that enable doing as one wishes with the property. Third, the term right is sometimes used to indicate the existence of prohibitions or requirements on others that enable the individual to pursue certain interests or activities. For example, the American Constitution is said to give citizens the right to free speech because it contains a prohibition against government limits on speech, and federal law is said to give citizens the right to an education because it contains a requirement that each state must provide free public education for all its citizens.

## Justice and Fairness:

Disputes among individuals in business are often interlaced with references to justice or fairness. This is the case, for example, when one person accuses another of unjustly discriminating against him or her, showing unjust favoritism toward someone else, or not taking up a fair share of the burdens involved in some cooperative venture. Resolving disputes like these requires that we compare and weigh the conflicting Claims of each of the parties and strike a balance between them. Justice and fairness are essentially comparative. They are concerned with the comparative treatment given to the members of a group when benefits and burdens are distributed, when rules and laws are administered, when members of a group cooperate or compete with each other, and when people are punished for the wrongs they have done or compensated for the wrongs they have suffered. Although the terms justice and fairness are used almost interchangeably, we tend to reserve the word justice for matters that are especially serious, although some authors have held that the concept of fairness is more fundamental.

Standards of justice are generally taken to be more important than utilitarian considerations. If a society is unjust to some of its members, then we normally condemn that society, even if the injustices secure more utilitarian benefits for everyone. If we think that slavery is unjust, for example, then we condemn a society that uses slavery even if slavery makes that society more productive. Greater benefits for some cannot justify injustices for others. Nonetheless, we also seem to hold that if the social gains are sufficiently large, a certain level of injustice may legitimately be tolerated. In countries with extreme deprivation and poverty, for example, we seem to hold that some degree of equality may be traded off for major economic gains that leave everyone better off. Standards of justice do not generally override the moral rights of individuals. Part of the reason for this is that, to some extent, justice is based on individual moral rights. The moral rights of some individuals cannot be sacrificed merely in order to secure a somewhat better distribution of benefits for others. However, correcting extreme injustices may justify restricting some individuals' rights. Property rights, for example, might be legitimately redistributed for the sake of justice. We discuss trade-offs of this sort more fully after we have a better idea of what justice means.

We live in an age of innovation, the growth of free markets, and a world economy. New technologies, roles for government, and players on the global scene offer challenging opportunities, demands, and constraints. More peoples and nations are working together to spread freedom and democratic principles; to nurture free markets; to protect individual property rights; and to encourage respect for human rights, the rule of law, and the environment. With increasing urgency, market and social forces are rewriting the roles and responsibilities of business as well. Though the profit motive of business is understood and accepted, people do not accept it as an excuse for ignoring the basic norms, values, and standards of being a good citizen.

Modern businesses are expected to be responsible stewards of community resources working toward the growth and success of both their companies and their communities. Government has an important role in the spread of freedom and democratic capitalism. It provides for the essential market-oriented legal framework and reliable dispute resolution processes that allow businesses to compete fairly on the quality, prices, and delivery of their goods and services alone. It enforces laws, regulations, and judgments to safeguard the social order its citizens value. It cannot, however, act alone. Businesses and civil society must also be involved in solutions to community problems.



## Concepts of Business Law

Law adherents usually contend that some higher law or set of universal moral rules binds all human beings in all times and places. The Roman statesman Marcus Cicero described natural law as “*The highest reason. Implanted in nature, which commands what ought to be done and forbids the opposite.*” Because this higher law determines what is ultimately good and ultimately bad, it serves as a criterion for evaluating positive law. To Saint Thomas Aquinas, for example, “every human law has just so much of the nature of law, as it is derived from the law of nature.” To be genuine law, in other words, positive law must resemble the law of nature by being “good”—or at least by not being “bad.” Business law encompasses the law governing contracts, sales, commercial paper, agency and employment law, business organizations, property, and bailments. Other popular areas include insurance, wills and estate planning, and consumer and creditor protection. Business law may include issues such as starting, selling, or buying a small business, managing a business, dealing with employees, or dealing with contracts, among others. The laws aim to protect fair business practices and due process rights for aggrieved workers and others.

Obviously, the law’s various functions can conflict. The familiar clash between economic growth and environmental protection is an example. In law, as in life, there generally is no such thing as a free lunch. Where the law’s objectives conflict, lawmakers may try to strike the best possible balance among those goals. This suggests limits on the law’s usefulness as a device for promoting particular social goals. The purpose of the Statute is to encourage and enable corporate executives to be ethical and socially responsible. But Statutes and civil and criminal actions can go only so far in directing business managers down an ethical path. And while avoiding liability by complying with the law is one reason to be ethical and socially responsible, there are noble and economic reasons that encourage current and future business executives to study business ethics.

Although it is tempting to paint all businesses and all managers with the same brush that colors unethical and irresponsible corporations and executives, in reality corporate executives are little different from us, our friends, and our acquaintances. All of us from time to time fail to do the right thing, and we know that people have varying levels of commitment to acting ethically. The difference between most of us and corporate executives is that they are in positions of power that allow them to do greater damage to others when they act unethically or socially irresponsibly. They also act under the microscope of public scrutiny. It is also tempting to say that current business managers are less ethical than managers historically. But as Federal Reserve Chairman Alan Greenspan said, “*It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed have grown enormously.*” This brings us to the first and most important reason why we need to study business ethics: to make better decisions for ourselves, the businesses we work for, and the society we live in.

We should study not only the different theories that attempt to define ethical conduct, but more importantly we need to learn to use a framework or strategy for making decisions. This framework increase the likelihood we have considered all the facts affecting our decision. By learning a methodology for ethical decision making and studying common thinking errors, we will improve our ability to make ethical decisions.

Another reason we study ethics is to understand ourselves and others better. While studying the various ethical theories, we will see concepts that reflect our own thinking and the thinking of others. This chapter, by exploring ethical theories systematically and pointing out the strengths and weaknesses of each ethical theory, should help us understand better why we think the way other do and why others think the way we do. By studying ethical theories, learning a process for ethical decision making, and understanding common reasoning fallacies, we should also be better able to decide how we should think and whether we should be persuaded by the arguments of others. Along the way, by better understanding where others are coming from and avoiding fallacious reasoning, we should become a more persuasive Speaker and writer.



## Form of Businesses

One of the most important decisions made by a person beginning a business is choosing a form of business. This decision is important because the business owner's liability and control of the business vary greatly among the many forms of business. In addition, some business forms offer significant tax advantages to their owners. Although other forms of business exist, usually a person starting a business will wish to organize the business as a sole proprietorship, partnership, limited liability partnership, limited partnership, limited liability limited partnership, Corporation, or limited liability Company. **Sole Proprietorship:** A sole proprietorship has only one owner. The sole proprietorship is merely an extension of its only owner, the sole proprietor. As the only owner, the sole proprietor has the right to make all the management decisions of the business. In addition, all the profits of the business are his. A sole proprietor assumes great liability: He is personally liable for all the obligations of the business. All the debts of the business, including debts on contracts signed only in the name of the business, are his debts. If the assets of the business are insufficient to pay the claims of its creditors, the creditors may require the sole proprietor to pay the claims using his individual, nonbusiness assets such as money from his bank account and the proceeds from the sale of his house. A sole proprietor may lose everything if his business becomes insolvent. Hence, the sole proprietorship is a risky form of business for its owner. A sole proprietorship is not a legal entity. It cannot sue or be sued. Instead, creditors must sue the owner. The sole proprietor—in his own name—must sue those who harm the business. A sole proprietor may hire employees for the business, but they are employees of the sole proprietor.

Under the law of agency, the sole proprietor is responsible for her employees' authorized contracts and for the torts they commit in the course of their employment. Also, a sole proprietorship is not a tax-paying entity for federal income tax purposes. All of the income of a sole proprietorship is income to its owner and must be reported on the sole proprietor's individual federal income tax return. Likewise, any business losses are deductible without limit on the sole proprietor's individual tax return.

**Partnership:** A **partnership** has two or more owners, called **partners**. The partners have the right to make all the management decisions for the business. In addition, all the profits of the business are shared equally by the partners. The partners assume personal liability for all the obligations of the business. All the debts of the business are the debts of all the partners. Likewise, partners are liable for the torts committed in the course of business by their partners or by partnership employees. If the assets of the business are insufficient to pay the Claims of its creditors, the creditors may require one or more of the partners to pay the Claims using their individual, nonbusiness assets. Thus, a partner may have to pay more than his share of partnership liabilities. Like the sole proprietorship, the partnership is not a tax-paying entity for federal income tax purposes. All of the income of the partnership is income to its partners and must be reported on the individual partner's federal income tax return whether or not it is distributed to the partners.

Likewise, any business losses are deductible without limit on the partner's individual tax return. The partnership has a life apart from its owners. When a partner dies or otherwise leaves the business, the partnership usually continues. A partner's ownership interest in a partnership is not freely transferable. A purchaser of the partner's interest is not a partner of the partnership, unless the other partners agree to admit the purchaser as a partner. Why would persons organize a business as a partnership? Formation of a partnership requires no formalities and may be formed by default. A partnership is created automatically when two or more persons own a business together without selecting another form. Also, each partner's right to manage the business and the deductibility of partnership losses on individual tax returns are attractive features.

**A corporation** is owned by shareholders who elect a board of directors to manage the business. The board of directors often selects officers to run the day-to-day affairs of the business. Consequently, ownership and management of a corporation may be completely separate: No shareholder has the right to manage, and no officer or director needs to be a shareholder. Shareholders have limited liability for the obligations of the corporation, even if a shareholder is elected as a director or selected as an officer. Directors and officers have no liability for the contracts they or the corporation's employees negotiate in the name of the corporation. While managers have liability for their own mis-conduct, they have no liability for corporate torts committed by other corporate managers or employees. Therefore, shareholders, officers, and directors have limited liability for the obligations of the business. The usual corporation is a tax-paying entity for federal income tax purposes. The corporation pays taxes on its profits. Shareholders do not report their shares of corporation profits on their individual federal income tax returns. Instead, only when the corporation distributes its profits to the shareholders in the form of dividends or the shareholders sell their investments at a profit do the shareholders report income on their individual returns. This creates a double-tax possibility, as profits are taxed once at the corporation level and again at the shareholder level when dividends are paid. Also, shareholders do not deduct corporate losses on their individual returns. They may, however, deduct their investment losses after they have sold their shares of the corporation. A corporation has a life separate from its owners and its managers. When a shareholder or manager dies or otherwise leaves the business, the corporation is not dissolved. A shareholder may sell his shares of the corporation to other persons without limitation unless there is a contrary agreement. The purchaser becomes a shareholder with all the rights of the selling shareholder.

There are several reasons why persons organize a business as a corporation. First, no human has unlimited liability for the debts of the business. As a result, businesses in the riskiest industries such as manufacturing incorporate. Second, because investors may contribute capital to the business, avoid unlimited liability, escape the obligation to manage the business, and easily liquidate their investments by selling their shares, the corporation has the ability to attract large amounts of capital, even more than the limited partnership, whose partnership interests are not as freely transferable. Thus, the corporation has the capacity to raise the largest amount of capital.

Business Law represents a very large part of many legal practices. The Business Law program focuses on the application of law in both the business and government sectors. Business and commercial law covers a broad area of business, commercial and consumer transactions. Business law underpins the operation of markets, regulates conduct in markets and addresses instances of market failure where voluntary market mechanisms alone fail to achieve relevant policy objectives. Business law practitioners identify legal standards as the law changes and determine suitable policies and practices for meeting legal requirements. In fact, most business transactions do not involve litigation or disputes—most continue to successful completion. Thus, it is important to learn to facilitate the business transaction. In our daily life business law is very important both in study factors and in practical purposes. Studying business law is to clear the rules and regulations for better business functions.

## Management Information System

*Management* is usually defined as planning, organizing, directing, and controlling the business operation. management is the process of allocating an organization's inputs, including human and economic resources, by planning, organizing, directing, and controlling for the purpose of producing goods or services desired by customers so that organizational objectives are accomplished. If management has knowledge of the planning, organizing, directing, and controlling of the business, its decisions can be made on the basis of facts, and decisions are more accurate and timely as a result.

Management information systems are those systems that allow managers to make decisions for the successful operation of businesses. Management information systems consist of computer resources, people, and procedures used in the modern business enterprise. The term *MIS* stands for management information systems. MIS also refers to the organization that develops and maintains most or all of the computer systems in the enterprise so that managers can make decisions. The goal of the MIS organization is to deliver information systems to the various levels of corporate managers. MIS professionals create and support the computer system throughout the company. Trained and educated to work with corporate computer systems, these professionals are responsible in some way for nearly all of the computers, from the largest mainframe to the desktop and portable PCs.

A management information system (MIS) is a system or process that provides the information necessary to manage an organization effectively. MIS and the information it generates are generally considered essential components of prudent and reasonable business decisions. The importance of maintaining a consistent approach to the development, use, and review of MIS systems within the institution must be an ongoing concern of both bank management and OCC examiners. MIS should have a clearly defined framework of guidelines, policies or practices, standards, and procedures for the organization. These should be followed throughout the institution in the development, maintenance, and use of all MIS. MIS is viewed and used at many levels by management. It should be supportive of the institution's longer term strategic goals and objectives. To the other extreme it is also those everyday financial accounting systems that are used to ensure basic control is maintained over financial record keeping activities. The study of Information systems is not new. The Egyptian architects who built the pyramids relied on a system of measurements for construction of the pyramids. Phoenician astronomers studied the system of the stars and predicted future star positions. The development of a set of standards and procedures, or even a theory of the universe, is as old as history itself. An institution's MIS should be designed to achieve the following goals:

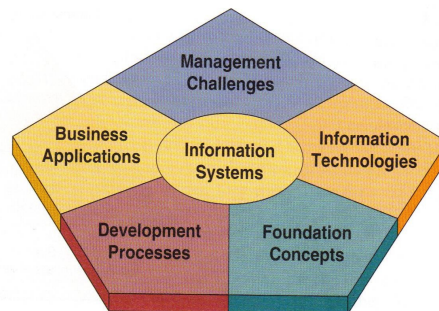
- Enhance communication among employees.
- Provide an objective system for recording and aggregating information.
- Reduce expenses related to labor-intensive manual activities.
- Support the organization's strategic goals and direction.

MIS supplies decision makers with facts, it supports and enhances the overall decision making process. MIS also enhances job performance throughout an institution. At the most senior levels, it provides the data and

information to help the board and management make strategic decisions. At other levels, MIS provides the means through which the institution's activities are monitored and information is distributed to management, employees, and customers. Effective MIS should ensure the appropriate presentation formats and time frames required by operations and senior management are met. MIS can be maintained and developed by either manual or automated systems or a combination of both. It should always be sufficient to meet an institution's unique business goals and objectives. The effective deliveries of an institution's products and services are supported by the MIS.

### Framework of MIS...

The field of information Systems encompasses many complex technologies, abstract behavioral concepts, and specialized applications in countless business and nonbusiness areas. As a manager or business professional we do not have to absorb all of this knowledge. Figure 1.1 illustrates a useful conceptual framework that organizes the knowledge presented in this text and outlines what we need to know about information Systems. It emphasizes that we should concentrate our efforts in the following five areas of IS knowledge:



**FIGURE 1.3** Framework outlines of the Major areas of Information Systems.

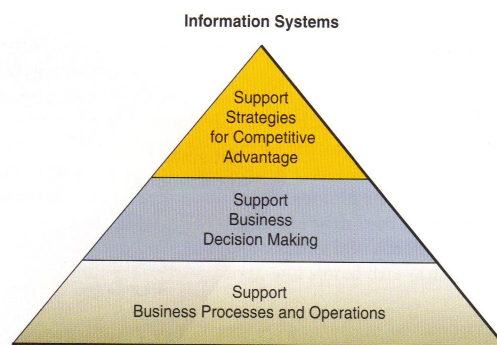
- **Foundation Concepts.** Fundamental behavioral, technical, Business, and managerial concepts about the components and roles of information Systems. Examples include basic information System concepts derived from general Systems theory, or competitive strategy concepts used to develop business applications of information technology for competitive advantage.
- **Information Technologies.** Major concepts, developments, and management issues in information technology that is, hardware, Software, networks, data management, and many Internet-based technologies.

- **Business Applications.** The major uses of information Systems for the operations, management, and competitive advantage of a business.
- **Development Processes.** How business professionals and information specialists plan, develop, and implement information Systems to meet business opportunities.
- **Management Challenges.** The challenges of effectively and ethically managing information technology at the end user, enterprise, and global levels of a business.

### The Fundamental Roles of MIS in Business..

There are three fundamental reasons for all business applications of information system. They are found in the three vital roles that information Systems can perform for a business enterprise.

- Support of its business processes and operations.
- Support of decision making by its employees and managers.
- Support of its strategies for competitive advantage.



**FIGURE 1.4:** The three major roles of the business applications of information Systems.

The Major Roles of MIS:

**Support Business Processes.** As a consumer, we regularly encounter information Systems that support the

business processes and operations at the many retail Stores where our shop. For example, most retail stores now use computer-based information Systems to help them record customer purchases, keep track of inventory, pay employees, buy new merchandise, and evaluate sales trends. Store operations would grind to a halt without the support of such information Systems.

**Support Decision Making.** Information Systems also help store managers and other business professionals make better decisions. For example, decisions on what lines of merchandise need to be added or discontinued, or on what kind of investment they require, are typically made after an analysis provided by computer-based information Systems. This not only Supports the decision making of store managers, buyers, and others, but also helps them look for ways to gain an advantage over other retailers in the competition for customers.

**Support Competitive Advantage.** Gaining a Strategic advantage over competitors requires innovative application of information technologies. For example, store management might make a decision to install touch-screen kiosks in all of their stores, with links to their e-commerce website for online shopping. This might attract new customers and build customer loyalty because of the ease of shopping and buying merchandise provided by such information Systems. Thus, Strategic information Systems can help provide products and Services that give a business a comparative advantage over its competitors.

There is no question that the use of management information system in business presents major security challenges, poses serious ethical questions, and affects society significant ways. Therefore, in this section we will explore the threats to business and individuals posed by many types of Computer crime and unethical behavior. The use of information technologies in business has had major impacts on : and thus raises ethical issues in the areas of crime, privacy, individuality, employment, health, and working conditions.

However, we should also realize that information technology has had he results as well as detrimental effects on society and people in each of these areas. For example, computerizing a manufacturing process may have the adverse r eliminating people's Jobs, but also have the beneficial result of improving working conditions and producing products of higher quality at less cost. So our job as a manager or business professional should involve managing your work activities those of others to minimize the detrimental effects of business application information technology and optimize their beneficial effects. That would represents an ethically responsible use of information technology.

As a business professional, we have a responsibility to promote ethical uses of information technology in the workplace. Whether we have managerial responsibilities or not, we should accept the ethical responsibilities that come with our work activities. That includes properly performing our role as a vital human resource in the business Systems we help develop and use in our organization. As a manager or business professional, it will be our responsibility to make decisions about business activities and the use of information technologies, which may have an ethical dimension that must be considered.

## Human Resource Management

Human Resources (HR) Management is a multifaceted function. This entity has an important place within companies in helping key personnel decide on the best staff for their needs, among other things. Sometimes, the employees chosen are full-time employees already working for the company or they could be contractors. Regardless, the goal of HR Management is to choose the most qualified person for the job. HR Management is a group of professionals that wear many hats, some of which include employee benefits and compensation, hiring and terminating employees, and managing personnel policies and employee records.

Human resource planning has traditionally been used by organizations to ensure that the right person is in the right job at the right time. Under past conditions of relative environmental certainty and stability, human resource planning focused on the short term and was dictated largely by line management concerns. Increasing environmental instability, demographic shifts, changes in technology, and heightened international competition are changing the need for and the nature of human resource planning in leading organizations. Planning is increasingly the product of the interaction between line management and planners. In addition, organizations are realizing that in order to adequately address human resource concerns, they must develop long-term as well as short term solutions. Human Resources Management (HRM) is a multifaceted function.

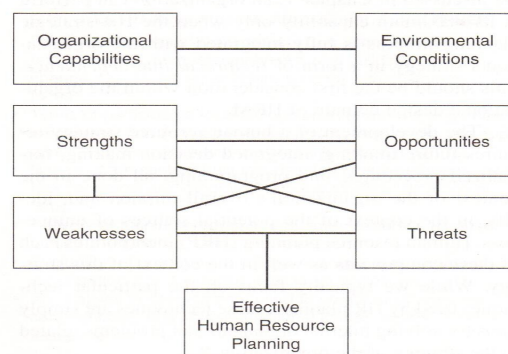
This entity has an important place within companies in helping key personnel decide on the best staff for their needs, among other things. Sometimes, the employees chosen are full-time employees already working for the company or they could be contractors. Regardless, the goal of HR Management is to choose the most qualified person for the job. HR Management is a group of professionals that wear many hats, some of which include employee benefits and compensation, hiring and terminating employees, and managing personnel policies and employee records.



## SWOT

The Identification and analysis of strengths, weaknesses, opportunities, and threats (SWOTs) is central to the Strategic planning process. SWOT analysis involves developing a strategy that responds to external threats and opportunities by exploiting internal strengths and avoiding or improving internal weaknesses. An organization employing the SWOT approach would first analyze its competitive environment to identify potential opportunities and threats and then match these opportunities and threats to its internal strengths and weaknesses. The perceived fit between external conditions and internal capabilities articulates the organization's strategy.

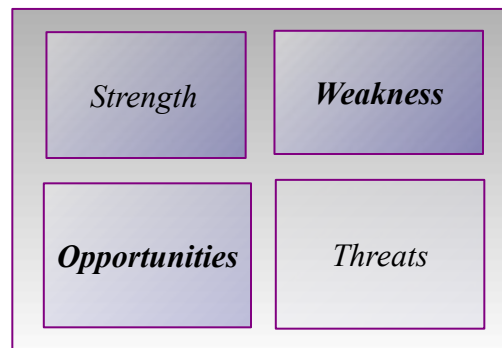
Strategy development is an analytic exercise, requiring research and assessment of the threats and opportunities presented by the Company's external environment. The organization must view its competitive environment as a business ecosystem, complete with opportunities to form mutually beneficial alliances and partnerships as well as threats from aggressive competitors. The successful organization must accurately discern and respond to the environmental changes that will most directly affect the organization's future. One approach to identifying potential threats and opportunities is environmental scanning. Environmental scanning involves studying and interpreting social, economic, political, regulatory, and technological trends.



**FIGURE: 1.5 SWOT STRATEGY.**

Once key issues have been identified with your SWOT analysis, they feed into marketing objectives. **SWOT** can be used in conjunction with other tools for audit and analysis, such as PEST analysis and Porter's Five-Forces analysis. So SWOT is a very popular tool with marketing students because it is quick and easy to learn. During the SWOT exercise, list factors in the relevant boxes. This SWOT analysis example is based on an imaginary situation. The scenario is based on a business-to-business manufacturing company, who historically rely on distributors to take their products to the end user market. The opportunity, and therefore the subject for the SWOT analysis, is for the manufacturer to create a new company of its own to distribute its products direct to certain end-user sectors, which are not being covered or developed by its normal distributors.





**Figure 1.6: SWOT analysis chart.**

Especially when we are growing an existing business, we want the planning process to pull our team together, to develop commitment and accountability. Managers have to believe in a plan to implement a plan. They also have to believe that result will be tracked and that managers will be held accountable for disappointing results and will be given credit for positive results. The planning process depends on everybody believing that results will make a difference. As an owner or operator of an existing business, recognize this team factor as a vital part of our planning process. Work on bringing the team into the planning at several levels.

The Human Resources Management (HRM) function includes a variety of activities, and key among them is deciding what staffing needs you have and whether to use independent contractors or hire employees to fill these needs, recruiting and training the best employees, ensuring they are high performers, dealing with performance issues, and ensuring your personnel and management practices conform to various regulations. Activities also include managing your approach to employee benefits and compensation, employee records and personnel policies. Usually small businesses (for-profit or nonprofit) have to carry out these activities themselves because they can't yet afford part or full-time help. However, they should always ensure that employees have and are aware of personnel policies which conform to current regulations. These policies are often in the form of employee manuals, which all employees have.

Human Resource Management (HRM) is the function within an organization that focuses on recruitment of, management of, and providing direction for the people who work in the organization. Human Resource Management can also be performed by line managers. Human Resource Management is the organizational function that deals with issues related to people such as compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training.

The theoretical discipline is based primarily on the assumption that employees are individuals with varying goals and needs, and as such should not be thought of as basic business resources, such as trucks and filing cabinets.

The field takes a positive view of workers, assuming that virtually all wish to contribute to the enterprise productively, and that the main obstacles to their endeavors are lack of knowledge, insufficient training, and failures of process. HRM is seen by practitioners in the field as a more innovative view of workplace management than the traditional approach. Its techniques force the managers of an enterprise to express their goals with specificity so that they can be understood and undertaken by the workforce, and to provide the resources needed for them to successfully accomplish their assignments. As such, HRM techniques, when properly practiced, are expressive of the goals and operating practices of the enterprise overall. HRM is also seen by many to have a key role in risk reduction within organizations.

## Human Behavior in Organization, some concepts.

It's hard to imagine the changes in human life that have come about in western civilization over the past Century and a half. For thousands of years the material conditions of our existence (the way food, clothing, and shelter were produced) remained relatively unchanged. And then, since 1800, at an ever faster pace, we have had steam engines, cotton gins, locomotives, the telegraph, automobiles, airplanes, radio, atomic energy, and space explorations. Our way of life has changed unbelievably—but perhaps in no area has the change been greater than in the way men earn their living. The last Century and a half has brought a dramatic revolution, not only in what we make, but in how we make it. The industrial revolution has been a revolution not only in technology but also in human relations. As technology grew more and more complex, people became more dependent on one another and the problems of working together became more troublesome. Today the typical American is no longer his own boss; he is not a farmer, but a city dweller. Furthermore, the industrial revolution has brought major changes in what it means to be an employee.

Adam Smith's famous description of the changes that were taking place in pin making almost two centuries ago, at the dawn of the industrial revolution in England: A workman not educated to this business could scarce, perhaps with utmost industry make one pin a day, and certainly not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business. ... I have seen a small manufacture of this sort where ten men only were employed and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make upwards of forty-eight thousand pins in a day.

Economically, specialization has brought great advantages. But it has brought many disadvantages as well: boredom and the loss of a sense of individual importance, of accomplishment, of pride in work. How much satisfaction can a man obtain from spending his entire day pointing pins? Further, workers feel that they are shackled to work processes they have had no hand in developing. The Industrial Engineering Department frequently determines every detail of the Job, depriving the individual of any chance to show initiative or originality. Specialization has sharpened the dividing line between workers and management. Specialization has also developed within management. Instead of a single owner-manager with complete control over the plant, or a foreman with complete control over his department, we have staff departments such as engineering, production scheduling, purchasing, and personnel.

## INCREASING SIZE OF BUSINESS ORGANIZATION

The industrial revolution has made business organizations larger and the boss more remote. The journeyman wagon maker had no trouble talking to his boss; communication was easy. Today, however, a man may spend his lifetime in a steel mill and never talk to the plant manager, let alone the president. The owner of a wagon shop could easily supervise all phases of manufacture. In a business like British Airways, supervision and coordination require the Services of thousands of executives. All this leads to the process of bureaucratization, the making of rules that restrict individual discretion even to the point where top executives find themselves tied down.

In the simple society of the early 1800's, changes were rare. Behavior was governed by tradition: There was no need to tell a man what to do all he had to do was follow the patterns laid down by his ancestors. Modern industry is subject to constant change. The very fact of change creates two types of problem: (1) Less can be left to routine; careful planning, deliberate Orders, and elaborate Communications are essential. Since personal experience and tradition are less valued, there is a correspondingly greater need for rules and regulations. (2) People normally resist change, particularly when it is imposed upon them. Consequently the problems of motivating people to work together have grown more complex.

In short, the industrial revolution has done wonders to make life easier for all of us, but at a serious cost in terms of the rewards and enjoyments that individuals derive from their Jobs. The rest of this chapter will be concerned with three questions: What sorts of needs are satisfied through work? How can these needs be ranked in relative importance? And how important as a source of satisfaction is one's compared with other means of satisfaction available in life?

Although we recognize all attempts to categorize needs are somewhat artificial, in this assignment I shall speak of three forms of need satisfaction:

1. **Physical and security needs:** These relate to the satisfaction of bodily functions, such as hunger, thirst, shelter, and the like, as well as the need to be secure in the enjoyment of these.
2. **Social needs:** Since human beings are dependent on each other, there are some needs which can be satisfied only when the individual is helped or recognized by other people.
3. **Egoistic needs:** These relate to man's desire to be independent, to do things on his own and to sense accomplishment.

Another way of categorizing needs is in terms of the means by which they are satisfied. Some forms of satisfaction are enjoyed off the job for example, a man spends his pay check after work and away from the Job.

Other needs are satisfied through having a happy, satisfying work environment around the Job. A third form of satisfaction can be obtained only through the process of working and so can be called intrinsic or through the job satisfaction. When management emphasizes off the job satisfactions, it assumes, in effect, that work is a punishment which employees endure in exchange for rewards to be enjoyed after work. Managers who stress around the job satisfactions seek to make the work environment a pleasant one, but do not provide direct, positive motivation for men to work harder. To the extent that through the job satisfactions are provided, employees work hard; the harder they work the greater their satisfaction.

As will be seen, both sets of categories types of needs and ways in which needs are satisfied overlap a bit and many needs can be placed in more than one category. Nor is there any hard and fast relationship between the sets of categories. To a considerable extent, however, physical needs are satisfied off the Job, social needs are satisfied through personal contacts around the Job, whereas egoistic needs are chiefly satisfied through the Job. There are, of course, many exceptions to this "rule." For example, safe working conditions satisfy an important physical need, yet they are enjoyed on the Job; Status is a social need, yet the Status derived from holding an important position is enjoyed away from work as much as on the Job; praise is another social need, yet praise from one's boss is often best obtained through doing one's Job well; a salesman may satisfy his social needs through his work the more sales he makes, the greater his opportunity to meet people. With the above warnings in mind, let us now look at the various forms of need satisfaction obtained from work, starting with physical and security needs.

#### Primarily Physical and Security Needs

##### MONEY

When we ask why people do job or business, answer comes, "to make money." Certainly the need to earn a living is the most powerful single reason why people work, though, as we shall see, non monetary incentives are also important. Money satisfies all types of needs. Its principal use may be to provide the physical necessities of life as well as security; however, social Status in our society depends largely on the size of one's earnings; and earning a good income provides many people with an egoistic sense of accomplishment.

The first demand most people make of a Job, then, is that it provide them with enough to enjoy a "proper" Standard of Living. But what we accept as "proper" tends to rise over time. To many people today, an automobile and a TV set are among the essentials of life. Moreover, our concept of the proper Standard of Living depends a good bit on what our neighbors have. This tremendous interest in material goods is not a natural characteristic of man but a special trait of our own culture. Many other societies ascribe far less importance to material goods than to holiness, wisdom, and physical and military power. The individual's place in society may be determined purely by who his ancestors were; displays of wealth may be regarded as poor taste.

Even in our own culture, money is ordinarily more important to the salesman than to the teacher or the minister. Some men refuse a promotion with a higher salary simply because it involves "too much responsibility." And there are people without much "get up and go" who are satisfied to live on a subsistence level and to spend the rest of their time fishing or building model airplanes. Although, in the larger Community, income may be only a rough measure of Status, within a plant it measures very precisely the importance of a Job.

## SECURITY

Job security is a fundamental human need; for many people it is more important than either pay or advancement. The forces driving toward unionism, the most serious problems of superior subordinate relations, the fears surrounding changing technology all revolve around the need for security. It is not enough for a man to have his physical needs satisfied from day to day; he wants to make sure they will continue to be satisfied in the future. In some cases, seniority offers the unskilled worker a sense of security akin to that of the farmer who owns his property or the craftsman who possesses special skills.

In recent years, however, automation and other economic changes have brought unemployment to many who once thought their Jobs secure. Older men, members of minority groups, and those with limited education or outmoded skills find it extremely hard to find steady work again. As a consequence, losing a Job can be a catastrophe, both physically and psychologically. No wonder workers' desires to hold on to their "property rights" to their Jobs have led to labor-management disputes over working rules and featherbedding, particularly in industries with declining employment. Illness and old age provide similar threats to security. Understandably, many companies and unions now seek to provide employees with "total" or "employment-to-grave" security against all forms of income interruption.

## ADVANCEMENT

A generalization of this sort, however, is much too broad, and needs careful qualification. In fact, as we shall discuss later, the very meaning of advancement differs substantially from one segment of the population to another: whether more security, more responsible Jobs, higher incomes, greater Status, or recognition from one's colleagues. The measure chosen depends in part on the kind of work one does. In addition, an individual's level of aspiration depends to a great extent on personality and family background. The son of underprivileged parents who have never known security is likely to be content with less "success" than some-one from a middle-class background. A rising member of middle management may find it difficult to understand why piece workers are more likely to restrict production than to earn all they can and win a promotion. Certainly competition is much less effective in motivating production workers than it is in motivating white-collar employees or executives. Indeed, many of the difficulties among these groups arise from failure to understand one another's motivations.

### Primarily Social Needs

We are social being. We feel boring while completing tasks alone either home or office. Particularly for employees who have an unsatisfactory home life, the job provides a large part of their social need satisfaction. It is social banter that makes many jobs bearable. If there is nothing more constructive to talk about, small issues can be magnified and boredom can be relieved through circulating rumors. In the informal social life of the plant, too, many a worker has a chance to demonstrate skill and initiative. And even the work itself may be socially rewarding for some employees, such as telephone operators and salesclerks who gain great satisfaction from talking to customers. The Job frequently satisfies other social needs besides the need for friendship.

Belonging to a clique provides employees with a sense of Identification and belonging, and they insist on forming "informal groups" even in the face of management Opposition. When they are unable to achieve such identification, the Job becomes less desirable. Indeed, there is evidence that workers who belong to small, integrated work groups have higher morale than those who work either alone or among large masses of employees with whom they have few social ties. One study explains why steelworkers are more satisfied with their Job than automobile assembly-line workers partly on the grounds that steelworkers typically work in small teams; in contrast, on an assembly line a worker can talk only to the two men flanking him, thus making cohesive social groups difficult to form.

Merely working together, teamwork, helps to build morale. Most people like helping others. Also, when we need it, we like to be helped by others. Another set of social needs develops out of the subordinates relationship to our supervisor. Naturally the subordinate wants to be treated fairly. The average worker also expects acceptance from their Supervisor—that is, understanding and consideration while working in a group.

Primarily Egoistic Needs

## ACCOMPLISHMENT

*"The trouble with this work is that I don't have any feeling of accomplishment. I'm just nobody, doing nothing, getting nowhere. I'm just nothing, so small I'd never be missed."* So one worker explained his dislike for his Job, even though it was one of the highest-paying Jobs in the plant. One of man's strongest needs is the need for a sense of accomplishment, for the feeling that he is getting something done, that his work is of importance. The work "accomplishment" is rather nebulous, however, for it means many things to different people. Let us examine some of the dimensions of this term.

**Importance of the work:** Work that seems pointless is bound to lead to frustration. One of the most unpleasant forms of punishment used by the military is to have men dig holes and then fill them in again. Compare this with the rich reward that people who perform even menial tasks in a hospital get from "helping people." Two English researchers, in a study of a candy factory, once found that the greatest dissatisfaction centered in a small work group whose Job consisted of unwrapping defective chocolates as part of a salvage Operation. The workers felt that their Job was far less constructive than that of the other operators.

**Service to others:** Studies suggest that there is a close correlation between an occupation's prestige and the satisfaction people get from working at it. "Jobs that have high prestige will tend to be valued for their Status rewards even when 'objective' aspects of the work are undesirable; similarly low-status Jobs will tend to be undervalued and disliked." Low status work is considered unimportant. *"The best way to improve the Job may often be, in fact, to change what the outside public thinks about it and its doers."* How the work fits into the whole. During World War II, the morale in a small plant was very low and turnover was high. Most of the employees were women who spent their days producing a small metal part that had no obvious importance. The

women had no idea what it was used for, nor would management tell them. Then one day they were taken by bus to a nearby aircraft plant where they were shown that the part was an important component of the tail assembly of the B-29. For a while at least, production and morale soared. Similarly, in modern industry it is often extremely difficult for the worker "to see his place in the scheme of things, to appreciate his contributions to the total process.

**Progress and completion:** If an employee is to have a feeling of achievement, he/she must have some way of measuring his progress. Everyone wants to know "How am I doing?" People like "feedback" even when there is no reward or penalty attached to failure or success. Thus, when a man idly throws a piece of paper at a wastepaper basket, he is interested in whether it goes in (even if he doesn't have to clean up afterward). Only if he/she can set up some goal and know that he has reached it can he feel this sense of achievement. Many routine Jobs are considered boring and monotonous precisely because they give the worker no way to check his progress.

**Productiveness:** Perhaps all that we have been saying adds up to one point: most people have a genuine desire to be productive, to keep busy. Certainly our observations cast doubt on the common assumption that most workers prefer to "goldbrick" than to work. In fact, it is harder to look busy than to work. Time passes more quickly when a worker is absorbed in what he/she is doing than when he/she is trying to avoid work. In our society, a healthy individual feels lost without some sort of Job or hobby. Normally, expending mental and physical energy is a pleasant, not a painful, experience. But if all this is true, how can we explain why people often do loaf on the Job and go to extraordinary extremes to avoid work?

Usually such behavior is a sign of dissatisfaction with the Job, with supervision, or with the Company as a whole. Workers who feel that they have been treated unfairly direct their energies to beating the System and show high skill in doing as little work as possible. This response, however, is a sure sign that the organization is beset by severe problems. The sense of productivity and accomplishment is particularly important to executives. One study, which made extensive use of psychological tests, reported: They conceive themselves as hard working and achieving people who must accomplish in order to be happy. . . They obtain continual Stimulation from the pleasure of immediate accomplishment. They feel the necessity to move continually upwards and to accumulate the rewards from increasing accomplishments.



## GUIDE TO ACCEPTABLE BEHAVIOR

Whenever we are thrown into a new social Situation, we are uncertain about how we are expected to behave. Our work days are filled with ambiguous situations. How much time should I take for a coffee break? Is it all right to talk to fellow employees while the boss is in the room? Must all copy be shown to the advertising manager? Even where there are established rules, one question remains: Is everybody expected to live by the letter of the law? Most employees don't want to violate the generally accepted "rules of the game"; at the same time they don't want to conform to restrictive rules that everyone else ignores. They want to know the "right" thing to do. The group fills an important need by providing all its members with a kind of "guide to correct behavior'-correct not in terms of any written policies, but in terms of what is actually acceptable.

Many Jobs which appear superficially dull and routine are made more interesting by the individual ingenuity and spontaneity encouraged and protected by the group. Although it may appear to the casual observer that management has defined a rigid series of Job requirements, work groups provide a setting which spurs the individual to modify the Job Situation more to his own liking: Extra work breaks can be obtained because employees spell one another. Unpleasant tasks assigned to one man can be rotated or shared by group agreement. Clever techniques for "beating" a difficult incentive formula can be worked out with the collusion of fellow group members. The key point here is that all of these new activities take initiative and energy. Thus, on Jobs which appear to require little of either, an outlet can be found in the informal modifications of the environment that are sanctioned by the group.

### HELP IN SOLVING WORK PROBLEMS..

A new sales clerk may not be sure about how to handle a complicated problem of returning some merchandise. A lab technician may be hesitant about asking his boss to repeat instructions, yet he is afraid that he may ruin the experiment unless he receives additional information. In each case the employee turns to his/her fellow workers for assistance, often preferring this source of help. The group's solution to a problem may differ from what management expects, and it may even be more efficient. Red tape is eliminated; shortcuts are evolved; informal channels of communication are established to cut across department boundaries. By the same token, work groups may also engage in featherbedding and work restriction. Certain jobs can be done by isolated workers, but working as a group often results in higher individual motivation and a faster work pace. Team members provide mutual help which increases the rate of learning.

Obviously, in most cases management must take the responsibility of making specific work assignments, but there are work situations in which a cohesive group can do a better job of fitting individual personalities to the work process and making expedient job assignment changes as new problems arise. The manager's decisions, since they must encompass a longer time period, are often less flexible and timely than the group's. Where the technology imposes extreme interdependence, and precise and instant coordination is required, for example in military fighting crews, the organization depends on the group to control and specify the individual's contribution to the total effort.



## Leadership

It's not always easy figuring out what kind of business to start up, especially if we hear all the doom and gloom stats about how many businesses fail shortly after hanging the "*open for business*" sign. For some perspective on how to choose a business that has legs, we have to look some aspects. Norm offers his wisdom on 3 criteria we should consider before starting a business.

- The business concept needs to be well established : According to business theories, the first criterion for starting a business is that the business concept needs to be well established. We don't want to spend a lot of money educating people about how to use our business. It's to our advantage that people know that the business concept exists, how to use it, and where to find it."
- Industry standard needs to be antiquated: The second criterion is that the industry standard needs to be antiquated. By that we means that the business concept exists and is in practice, but improvements can be made using technology and improving service.
- Finding a niche to fill within the industry itself: The third criterion is finding a niche to fill within the industry itself. Just by really digging in and understanding an industry, we can often uncover certain angles that are not being covered. Find a new twist on service, a new twist on marketing, a new mix of products or customer-friendly policies. Somewhere, there's an angle—and often times old-guard companies that have been in the business for a long time get lazy and used to "business as usual." That's our opportunity if we're looking at starting a business.

Whatever our skills, whatever our ambition, just remember that the best businesses to choose are sometimes simple variations of businesses that have been around a long time. We think, are spot on—reinventing the wheel is for high-risk ventures and big budgets. If we want a less risky path when starting a business, consider simply providing a much better wheel and get our business startup rolling!

### Leadership skills..

In any business, exceptional leadership skills are needed in order to succeed. Whether we own the business, manage it or are an employee looking to make his or her way up the corporate ladder, the right leadership style is essential in order to reach our goals. It can be said without argument that well-honed leadership skills are the most important component of being a success in the business world. Below are some leadership rules to live by that will help us reap the rewards of contributing to our business or company effectively in the 21st Century:

- **Adaptability:** As a leader, adaptability means reacting in an effective manner to shifting circumstances in our business environment. Everybody experiences adaptive challenges, but leaders are keen to resolve these issues with a carefully thought-out plan of action. If there is one trait that every business leader

needs most in today's business environment, it is adaptability. If adaptability is not our strongest asset, then hone our skills by. Learning to accept difference as just that – difference, not a problem. Developing ways to anticipate problems and prepare backup plans to effectively cope with those problems.

Keeping an open mind and committing oneself to learning constantly, learning quickly and reacting accordingly. Adopting an approach of flexibility when faced with any situations that require adaptability. Remember that if we design our work style around a plan that provides plenty of adaptability, we will be able to provide better support and leadership to our team or company. We'll also be the person that others turn to for guidance when things change or an unexpected crisis arises. Lead by example – if we show them that we are adaptable, open-minded and flexible we'll discover more opportunities opening up for us.

- **People Skills:** Experts classify people skills as a term to indicate four sets of skills. The ability to observe people in our business. This gives us the insight needed to take the appropriate action required for the right result. The ability to communicate effectively. Contrary to popular belief, it is not easy to get ideas across to a group of people when attempting to make the right decision or reach a solution. A leader should be able to communicate effectively to everyone – not just some people – in order to be productive. The ability to motivate gives us the leadership edge to get the best out of those who work for us or with us. And as previously mentioned, adaptability. Developing better people skills, specifically in the four areas highlighted above, helps us attain our business objectives much faster by working more productively with today's very knowledgeable generation X and Y workforce. It is about genuinely connecting with those we work with and who work for us. When we connect well with others, we develop a trusting, productive relationship that benefits everyone.
- **Self Awareness:** Leaders who are aware of how they're perceived by others or how they impact the behavior of others are more likely to succeed than those who aren't self aware. Most of us are guilty of believing we are better than we really are because of intent. Unfortunately, living our lives on intent and assuming others can read our minds or instinctively understand us can be a recipe for disaster.

Others can only judge us based on our behaviors, which can often lead to misunderstandings and miscommunication. We can not, as a leader, assume that everyone around us instinctively understands the “how and why” behind what we do. We need to practice self awareness in order to establish a more positive working relationship with our employees and coworkers. Identify our personal strengths and weaknesses and then determine what we need to do to overcome them, whether it is explaining things more clearly, being more willing to compromise or developing better team-building skills. Remember, even if we don't see our flaws, those around we do. If we are self-aware, people will see that we are making the effort to overcome our faults – a very important trait of a great leader.

- **Decisiveness:** Decisiveness is an exercise in good judgment, affording well-informed, fast and sound decisions when needed from a leader, but it is not to be confused with inflexibility. It's often conspicuous, which sometimes makes it difficult for leaders to enforce their decisions comfortably. Everyone has some degree of fear of being liable for a conspicuous, albeit incorrect, decision.

However, the alternative is worse. Even though you are less conspicuous if we remain indecisive, the chances of facing more tragic consequences are higher – and will be remembered by others much longer. Decisiveness is an important rule in leadership - the decisions we are willing to make will have a direct impact on how we're accepted as a leader. Deciding by going with our gut feeling or intuition wouldn't hurt either.

- **Purposefulness:** Every business needs a vision to set its direction and every successful leader can tune into that vision to achieve success. Business books of yesteryears clearly advocate businesses using vision as a resource, but having a vision in the 21st Century may not be enough for today's leaders.

What may be more advantageous today is the ability to own a strong sense of purpose and the ability to convey this purposefulness to our employees and coworkers. Purposefulness can be more powerful than a vision because it shares the ambition of growing our business with others. Understanding what the real purpose behind the vision is will inspire others.

- **Collaborative Skills:** Technology has opened up new avenues for communicating and working in today's work force. Today's business environment benefits greatly from a culture of collaboration within our business and across all departments, both internally and externally. The Internet makes this extremely easy to do at a very low cost. Collaboration is a technique that can quickly add to our bottom line if we're able to develop a system where everyone can play their part in contributing ideas or increasing sales.
- **Innovate And Execute:** Another advantage of inculcating a culture of collaboration is the constant exchange of innovative ideas within our organization. To be a great leader, become the person that everyone approaches when they have a new idea or innovative approach to a problem. Leadership means understanding that we don't have to come up with ideas ourselves – we can also nurture growth and innovation in others that will benefit everyone.
- **Improving team management:** In order for our career to grow, we must demonstrate effective leadership skills. Organizations are finally beginning to realize that soft skills are just as important as technical skills and therefore, are placing more emphasis on developing and rewarding effective leaders. One important skill for leaders to master is the ability to recruit high-potential talent into the organization.

The responsibility of recruiting these candidates doesn't fall solely on the shoulders of our recruiter. There are many ways that we can enhance their efforts to attract the most sought after candidates. Recruiting shouldn't be reactive – performed only when we have an opening on our team. It should be an ongoing activity so that our pipeline of candidates is full and we can start interviewing shortly after a need has been established. Follow these tips to make the most of our efforts:

Look to our existing employees for a promotional opportunity, first. We should always look within the organization before we consider external candidates. Reward employees who are actively developing

their skills and are loyal to the company. Is there someone who is ready to take on new responsibilities?

If we are an active member of our professional community, start building a rapport with prospective candidates. Recruiting is a lot like marketing – the more positive contact we have with prospects, the more receptive they will be to talking to us about making a move to our organization. Keep in contact with those we would like to have on our team one day.

Build a reputation as a strong leader. This is one of those times when we want our reputation to precede us. If we are known for being a great leader, candidates will want to work for us. Year after year, “lack of opportunity” is cited as one of the main reasons for employee turnover. Judicious candidates know that their manager can make or break that opportunity and they make their decisions accordingly. Don’t be intimidated by dynamic, high-potential candidates. Instead of worrying about someone taking over our job (if this is an issue, we’ve got bigger problems to worry about), think about who could potentially replace us when we move on to a bigger role. Avoid the temptation of hiring someone just like own. It’s great when we have a connection with a candidate, but try to remember that we aren’t hiring someone to be our friend. Instead, look for someone who will complement our team’s strengths and weaknesses. Select candidates who are passionate about their work. Passion is difficult to ascertain during an interview. However, there are signs we can look for and questions we can ask to better determine if this is someone who is passionate about their work.

Does their education and work history consist of positions that build on each other, demonstrating knowledge in their field and a desire for growth? Or, have they bounced around with little direction? Are they actively involved in their professional community? Do they take advantage of opportunities to develop new skills? Find out why they chose to get into this particular line of work. Make a note of their specific professional goals. “To be working in a position that utilizes my skills or to be a manager” doesn’t cut it. Is it just about the money or are they looking for growth or meaning in their work?

Find out what aspect of their job they enjoy most. Stop settling for mediocrity. Don’t be afraid to hold off on making a selection decision until we have the right candidate. Get creative in the way we manage our employee shortage. Consider redistributing the duties on our team and hiring a temporary administrative employee to take up the slack. This is a great time for our employees gain additional experience.

## *Benchmarking...*

*Benchmarking is an ideal tool for measuring performance, using objective criteria. It is particularly valuable for identifying problem areas, letting you address issues ranging from poor productivity to low staff morale, absenteeism and cash flow shortfalls.*

Adrian Davies, Winning Moves

Benchmarking is the process of identifying "best practice" in relation to both products (including) and the processes by which those products are created and delivered. The search for "best practice" can take place both inside a particular industry, and also in other industries (for example - are there lessons to be learned from other industries?). The objective of benchmarking is to understand and evaluate the current position of a business or organization in relation to "best practice" and to identify areas and means of performance improvement.

Benchmarking involves looking outward (outside a particular business, organization, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the lessons learned from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization or in key areas of the business environment.

Benchmarking is the process of comparing the cost, time or quality of what one organization does against what another organization does. The result is often a business case for making changes in order to make improvements. Also referred to as "best practice benchmarking" or "process benchmarking", it is a process used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice, usually within their own sector. This then allows organizations to develop plans on how to make improvements or adopt best practice, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to challenge their practices.

There is no single benchmarking process that has been universally adopted. The wide appeal and acceptance of benchmarking has led to various benchmarking methodologies emerging. The most prominent methodology defined as twelve stages. These 12 stages methodology consisted of;

1. Select subject.
2. Define the process.
3. Identify potential partners.
4. Identify data sources.
5. Collect data and select partners.
6. Determine the gap.
7. Establish process differences.
8. Target future performance.
9. Communicate.
10. Adjust goal.
11. Implement.
12. Review.

The following is an example of a typical shorter version of the methodology:

6. Identify problem areas - Because benchmarking can be applied to any business process or function, a range of research techniques may be required. They include: informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus groups; or in-depth marketing research, quantitative research, surveys, questionnaires, re-engineering analysis, process mapping, quality control variance reports, or financial ratio analysis. Before embarking on comparison with other organizations it is essential that we know our own organization's function, processes; base lining performance provides a point against which improvement effort can be measured.
7. Identify other industries that have similar processes - For instance if one were interested in improving hand offs in addiction treatment he/she would try to identify other fields that also have hand off challenges. These could include air traffic control, cell phone switching between towers, transfer of patients from surgery to recovery rooms.
8. Identify organizations that are leaders in these areas - Look for the very best in any industry and in any country. Consult customers, suppliers, financial analysts, trade associations, and magazines to determine which companies are worthy of study.
9. Survey companies for measures and practices - Companies target specific business processes using detailed surveys of measures and practices used to identify business process alternatives and leading companies. Surveys are typically masked to protect confidential data by neutral associations and consultants.
10. Visit the "best practice" companies to identify leading edge practices - Companies typically agree to mutually exchange information beneficial to all parties in a benchmarking group and share the results within the group.
11. Implement new and improved business practices - Take the leading edge practices and develop implementation plans which include identification of specific opportunities, funding the project and selling the ideas to the organization for the purpose of gaining demonstrated value from the process.

Every business can use benchmarking. At its simplest, it helps us to compare statistics and control costs. More sophisticated benchmarking looks at process design and business strategy. Benchmarking is a process that compares our business activities to similar companies.

Benchmarking simply involves comparing our business activities and processes with those of other organizations. The simplest form of benchmarking is to compare costs. For example, utility bills or salaries. Costs which are higher than the industry norms may provide opportunities for savings. Most benchmarking compares key performance indicators. This tends to focus on productivity and efficiency. Some indicators can be expressed as simple statistics. For example, sales per employee, gross profit margins or wastage levels. Others may require qualitative, as well as quantitative, analysis. For example, to assess the effectiveness of training activities or levels of customer satisfaction. Indicators which show that the company is under performing represent opportunities to improve. Benchmarking often proves particularly successful when comparing processes. This involves looking in detail at how other organizations carry out the same or similar processes. For example, what technologies and production techniques they use.

**Types of Benchmarking:** There are a number of different types of benchmarking, as summarized below:

- 9) **Strategic Benchmarking:** Where businesses need to improve overall performance by examining the long-term strategies and general approaches that have enabled high performers to succeed. It involves

considering high level aspects such as core competencies, developing new products and services and improving capabilities for dealing with changes in the external environment. Changes resulting from this type of benchmarking may be difficult to implement and take a long time to materialize.

- 10) **Performance or Competitive Benchmarking:** Businesses consider their position in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. This type of analysis is often undertaken through trade associations or third parties to protect confidentiality.
- 11) **Process Benchmarking:** Focuses on improving specific critical processes and operations. Benchmarking partners are sought from best practice organizations that perform similar work or deliver similar services. Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking often results in short term benefits.
- 12) **Functional Benchmarking:** Businesses look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.
- 13) **Internal Benchmarking:** involves benchmarking businesses or operations from within the same organization (e.g. business units in different countries). The main advantages of internal benchmarking are that access to sensitive data and information is easier; standardized data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organization. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.
- 14) **External Benchmarking:** Involves analyzing outside organizations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the "leading edge". This type of benchmarking can take up significant time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations.
- 15) **International Benchmarking:** Best practitioners are identified and analyzed elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results. Globalization and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement and the results may need careful analysis due to national differences.

Benchmarking can also be used to compare businesses at a strategic level. For example, what strategic objectives organizations have, where resources are focused and what standards they work to. Again, there may be an opportunity to incorporate lessons learned from successful organizations into our own strategy. However we use benchmarking, it is only a tool which highlights opportunities. Benchmarking does not tell us what to do about them. Establish a project team from different parts of the business. Unless our company is prepared to change, the project will lead to nothing. We should add benchmarking activity to our business objectives. Benchmarking should not be considered a one-off exercise. To be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.



## Findings and Recommendation

A diverse workforce can make a real, sustainable difference to our business. Many companies throughout the world have already implemented successful diversity program and are enjoying dramatic improvements in performance and productivity. They are reaping the benefits of an expanded recruitment base and exploring the wealth of new markets. Implementing equality and diversity policies throughout our enterprise makes sound commercial sense. Ideas from existing business organizations can help us to increase profitability, deliver high standards of customer service and improve all round performance. Managing diversity, both as an employer and as a provider of goods and services, will let us respond effectively to the varying needs of our staff and customers. As I discussed all the theories and aspects, before starting a business we have to look several contents in brief. These are;

### 1. Introduction

- 1.1 Objective
- 1.2 Specific goal

### 2. Business Plan

- 2.1 Writing Business plan
- 2.2 Implementing plan
- 2.3 SWOT analysis

### 3. Financing

- 3.1 Loans
- 3.2 Virtual capital
- 3.3 Cash Flow management
- 3.4 Capital Budgeting

### 4. Marketing

- 4.1 Marketing research
- 4.2 Marketing method
- 4.3 Building Customer
- 4.5 Advertising

### 5. HRM

- 5.1 Managing Employees
- 5.2 Training
- 5.3 Employment Law
- 5.4 Recruitment
- 5.5 Consultants

### 6. Insurance

- 6.1 Protecting business
- 6.2 Risk minimization
- 6.3 Insurance claim

### 7. Business Law

- 7.1 Business act law
- 7.2 Employment law
- 7.3 Health & Safety law



Businesses are developing to suffice the need of the society. In any current business organization, progress that the company is making is recorded as basis for, among a host of other essential things, decision-making and as a benchmark for measuring the firm's performance. A financial situation analysis is one such yardstick that documents current and future financial situation in an attempt to determine a financial strategy to help achieve organizational goals. In any contemporary operating organization, progress that the company is making is recorded as basis of assessing the stewardship of management and for making economic decisions.

Given the nature of the economy of countries that they served and the large potential of the market, doing business in competitive world we requires a continuous process of learning, caution for instability, and flexibility to catch opportunities. Key industry Success Factors also known as Critical Success Factors (CSF) is used as a basis for identifying the information needed by the management of a certain organization. The notion of CSF is very straightforward, it says that in any organization may it be profit or non-profit, there are essential factors which are critical to the success of such organization, in a way that, if the objectives, goals and missions associated with the determined factors are not attained, the organization may face its downturn.

Since the business environments are fast becoming more and more complex added to the fact that it changes rapidly and dynamically, businesses need to concentrate on a few key elements that are most important to their organizations survival. Thus, it is not surprising the critical success factors keep the organizations from straying too far with external issues not relevant to their company's success.

As discussed, the knowledge of the underlying sources of competitive pressure highlights the critical areas where strategic changes may yield the greatest payoff, and highlights the areas where business industry trends promise to hold the greatest significance as either opportunities or threats. Understanding these sources will also prove to be useful in considering areas for diversification, though the primary focus is on strategy in the industry. With respect to the previous discussions, innovation alone is the essential thing to competitive advantage or success of any business Group.

## Conclusion

Over the years there have been numerous articles, books, and discussions regarding the best and most appropriate strategic planning methods in business. By and large, the operations functions and critical success factors of a company are important because it directly influence how well the organization satisfies its customers. By guaranteeing that the business strategy is properly executed, it then serves both as a supporter and implementer of the organization's strategy. Similarly and oftentimes, operations function also provides companies with all elements of performance needed to achieve its long-term competitive aims, and thus, playing its role as a leader of the firm's strategy.

With the continuously tighter market competition, business organizations are progressively focusing on their business operation to gain market leadership and thus increase profitability. In most business organizations the boundaries between operations and other functional areas is severe and nearly dense. Yet as business competition increases, corporations are demanding that all functional areas in the organization work together to bring products and services to market quickly and effectively. As business increases their focus on productivity and cost control, the future is still belongs to organizations that can amalgamate management theories and practice throughout their enterprise. Recent experience shows that even huge business companies are feeling the need to be able to move quickly in the competitive arena. Each approach has efficiency level, weaknesses, and strengths, but only when each strategy are being applied in its context and appropriately employ, it would maximize the potential of the approaches. The impact of a business plan on organization's activities can be measure on daily, medium term and long-term scales. It provides guidance for daily decisions and helps align them with the overall strategy and with the declared goals. It will help provide a rational basis for establishing alliances with customers, stakeholders and maximize leverage and synergy with partners. Businesses need to make sure that they still have internal or external value because it is a factor in determining a it's success or failure. A business has value when it has competitive earnings. A business needs to have acceptable rates of competitive earnings and outstanding shares. The free cash flow method values a firm through forecasting future performance of the business and measuring the surplus cash flow generated by the company. The option based method helps the company have value through it giving the firm alternative strategies to focus on. Mergers and turnovers does not always bring positive effects to a firm this can be due to the inadequate use of strategies, improper use of budgets, culture difference and resistance from the personnel.

The significance of this study is directly points to the development of managing business strategic plan. There are several studies related to this one, yet, those are more or less focused on different paths or issues pertaining to business management. Moreover, more are into case studies, in order to make a particular and identified result. However, this study is taken in general context, and covered broad area of business management. I have This is in trying to attempt to cover significant areas and elements in management that would help understanding the issue on managing strategic plan, more so, to be able to find ways in search for a unified and possible strategic planning approaches applied to any kind of organization. In studying the management of organizational strategic plan, there are several objectives which are needed to be underlined in order to serve as a direction to fulfill the task of the whole work. In any kind of endeavor, objectives should be clear in order to establish a better business organization.

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