An analysis of modern business practises

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Abstract:
The magnitude of organizational change is one of the measures of sustained success in a competitive globalized market such as that which exists today. With new technology and practices, organizational change occurs rapidly in today’s economy. The process of change needs special attention and consideration of professional managers towards building a sustainable and successful organization. This study analyzes the need for changes, and the external environment that accentuates the change process. It presents the change phenomena in the six major areas: i) economic scenario, ii) organizational behaviour and human resource management, iii) operations management, iv) management information system, v) financial management, and vi) accounting practices.

Introduction:
A business that is run efficiently will survive in the long run whereas a business that is inefficient will perish after a while. Such long run sustainability is possible only if the firm invests in new products, services and technologies such that it always remains ahead of its competitors in its chosen line of business. The process of innovation and evolution becomes all the more important when recessions occur. Global economic downturns have the capacity to wipe out businesses if they do not employ methods whereby they constantly improve their operations and management systems. Apart from sudden macroeconomic shocks, gradual depletion of natural resources could be another reason why firms need to innovate and replace and/or renew their assets.

Continuous change and improvement in all aspects of the business is thus essential for a firm to survive and thrive in the long run. Keeping this in view, here we take a critical look at the changes in the management process in different functional and strategic areas. Perhaps weighing the efficacy of these changes relative to their own organization may be a useful exercise for managers and government administrators in all countries.

Changes in economic scenario:
Countries are endowed with a certain quantity of naturally occurring resources e.g. the Middle East is endowed with oil. However, over time resources deplete and changes in external environment may occur which render the natural resource unusable or obsolete. Therefore, nations need to diversify into other potentially promising industrial sectors to maintain future economic growth and development (Figure 1.1). For example, in case of gradual depletion of a natural resource like oil in the Middle East, the countries need to
diversify into other sectors to maintain the steady growth rate of its economy (Figure 1.2). Moving towards non-oil based industries over time forces the gradual change in business pattern of those countries. Apart from the oil sector, the tourism industry is another example which could be developed as a substitute to current industries. The number of world tourists is expected to reach 1600 million by 2020 from 960 million as of today. Such staggering growth in the number of tourists implies that any country with potential tourist attractions could open these up to international visitors and this could contribute to the economy as well. Indeed some countries in the Middle East such as Dubai are now successfully building man-made tourist spots e.g. artificial islands to attract tourists. To create an economy in which tourism plays a major role, countries needs to move away from a relatively narrower view of hospitality management (where tourism generates only a small slice of the economy’s revenue) to a full scale tourism based economy (Figure 1.3). Examples of such tourism based economies include Bali in Indonesia or Fiji Islands in the South Pacific region where all infrastructure and policies are formulated keeping in mind that tourists should be attracted and re-attracted.

To facilitate economic growth and development in any country, the role of the banking and financial sector is crucial. Historically, commercial banks used to focus on maximization of net interest income within the constraints of various target obligations prescribed by the country’s central bank. In recent time however, income from interest has become less important as the proportion of non-interest income of commercial banks has grown. Such growth is in fact one of the key measures of success of any commercial bank—how well is it able to innovate and diversify its existing products and services to suit the changing needs of its customer base? Liberalization, globalization, and privatization have accelerated the pace of this growth and commercial banks now need to work in cooperation with capital markets, industrial development banks, exchange houses, and other financial institutions (Figure 1.4) to keep up with the fast-evolving needs of their clientele.

Currently the worldwide economy is going through a downturn. One of the possible factors contributing to this downturn e.g. in the US has been the increased use of complex financial instruments such as derivatives and mortgage backed complex securities. One of the lessons from this is that perhaps banks should avoid committing themselves for what they do not own. Going a step further, perhaps banks may even try to reduce risk through profit sharing based on Islamic Principle of justice and morality. Perhaps, there exists a need to examine a gradual introduction of Islamic banking along with traditional banking (Figure 1.5). We know that since 1963, when the First Islamic Bank was established in Egypt, a lot of significant developments have taken place within this area, particularly in the 1980s. Iran introduced 100% Islamic banking system in 1983, Malaysia passed a comprehensive legislation on Islamic finance in the same year, From Jakarta to Jeddah, 265 Islamic banks and other financial institutions are now operating in some 40 countries with total assets that top $262 billion. Malaysia created the world’s first Islamic interbank money market in 1994. In fact, today Islamic banking has broadened its appeal well beyond the confines of faithful Muslims as HSBC experiences in Malaysia. That ought to prompt the countries’ planners to think and suitably decide whether to promote Islamic banking too following the example of HSBC in Malaysia along with conventional banking.
Another important question relating to economic change is whether countries, especially those which have a lot of free trade among them, can introduce a common currency of exchange amongst them to facilitate easy exchange among all the trading partners. Currencies of some countries are pegged to a particular stable currency. However, these days in the current global economic situation, erstwhile stable currencies are not free from being...
affected by sudden macroeconomic shocks either. Trade position and the balance of payment position deteriorate with such sudden economic shocks. The introduction of Euro in the European belt is one such example and maybe extending to other different regions of the world which are closely aligned by their trading needs e.g. the GCC countries or members of the ASEAN (Figure 1.6). An in-depth analysis of the real exchange rates of GCC countries and the correlation between them is needed before a final decision to introduce a unified currency system. However, we know that countries within a region e.g. those within the GCC have the same language and the same culture. Therefore, a priori, pending any economic calculations, we may infer that the introduction of a common currency may be beneficial in strengthening the economies within the GCC system.

Changes in the organizational behaviour and human resource management scenario:

Almost every chairman has been known to declare periodically at their annual general meeting that the employees of the firm are its most important assets. Despite the declaration however, the general perception remains that organizational human resource (HR) is a cost centre i.e. spending resources on the human capital of the firm is considered an expense rather than as development of an asset. Training and development of the workforce has benefits that accrue over time and is necessary on a continuous basis to match the rapid technological advances. Cutting such training costs and focussing instead on short-term profitability will lead to erosion of future profits since the quality of HR will deteriorate. Instead of considering HR as an expense, firms need to view them as assets (Figure 2.1) which will appreciate over time (OECD, 1996). Such a view will promote the best possible utilization of all organizational assets and the firm will thrive in the long run. In the same vein, managers need to expend resources on upkeep and maintenance of infrastructure as well as relationships which are important such as those with customers and suppliers.

Sometimes managers may be tempted to maximize current gains and may end up delaying the required maintenance of machines or bargain too hard with suppliers and customers. Such actions deplete organizational asset base and consequentially, profits in the long run. For sustained long run profits, we need to focus on learning and development of the organization. Focussing solely on employee development and improving cost effectiveness measured by the traditional learning curve (Wright, 1935) is inadequate. Unlearning old and outdated practices, and learning to work together with the suppliers, customers, and above all with employees is needed so that a firm can come out with new products, and processes, and operating system. In sum, the organization needs to be great learning centre (Dealtry, 2002). Perhaps with an ideal firm to look at would be IBM of 1980s with five Nobel prizes and six national medals of science (Figure 2.2).
But in order to facilitate the learning process, constant change and upkeep in all methods of work within the firm are needed. Inertia and resistance to change could be the reason for an organization’s failure in the long run. Changing overnight is difficult but it is important to anticipate the likely changes in the internal and external environment and adapt to those changes. For instance, traditionally, increase in sales may be considered important, but creating new sales in new products and markets may be needed to keep up with a dynamic
consumer base. The culture of change needs to be embedded throughout the whole organization (Wilkinson, Fogarty & Melville, 1996) making it flexible to deal with the present day uncertainties of the business environment (Figure 2.3).

Apart from employee flexibility and development, emphasis on ethical standards is needed. The legal and regulatory framework may not be adequate to stop unscrupulous managers from profiting by unreasonable methods. Corporate frauds are prevalent, especially in economics with relatively less strict corporate governance framework. A possible recourse is to develop an ethical sense in each employee or person associated with the organization to achieve a higher average level of ethical standards (Figure 2.4) to save the stakeholders from potential fraud.

Another important area of concern in the pursuits of organizational development is the general apathetic behaviour of our present day corporate managers and government administrators. Some organizations go for share option plan for their senior executives to reduce the agency problem and motivate them to take a bit more care of shareholders’ interests. Hardly they perceive the organization as their own, and manage the organization as owner-managers. What is lacking today in present day organizations is the entrepreneurship culture. Executives need to gain confidence in their own strengths, and shake off their weaknesses to become creative. They need to trust their own judgement rather than obey. But the root of all these virtues can be embedded amongst individuals at the schools and colleges focussing on learning outcome of generic entrepreneurial skill development. Some universities have gone in for science and technology entrepreneurs park to develop more and more entrepreneurs. But the number of emerging entrepreneurs is not the last word, what is important is to develop more and more entrepreneurial managers for the country’s economy (Figure 2.5).

In the earlier days, corporate executives used to be proud to associate their names with the giant multinationals. But today the days of knowledge monopolies are over, venture capital firms are available to help nurture the ideas of technocrats into great possibilities. Now many executives start feeling suffocated in the giant multinationals, realize the restraint on their creativity, and prefer to go in for start-up companies to innovate something new in their own small scale set-up. If we look at developing economy like India today, for example, small scale sector accounts for 49% of overall country’s exports, over 40% of manufactured output, and provide employment to around 28.3 million people (RBIAR, 2008). In such a scenario, when any developing economy needs more and more innovative entrepreneurs, perhaps the local government need to give priority to micro and small businesses (Figure 2.6) to enable them to play a dominant role in the growth and development process.
But what happens to business organizations when there is a sudden change, and turmoil in the whole country due to natural disaster like floods in Bangladesh, and tsunami in Indonesia, or man-made coup in a small multi-racial country like Fiji or Solomon Islands, where all policies of the local government are changed, mass exodus of skilled manpower takes place from the country, confidence of employees, creditors, bankers and investors is all tarnished
with the country's economy shattered. To survive in such a sudden jerk situation which can never be anticipated and planned, to successfully manage the crises, organizations need to develop an innate strength of organizational resilience over time to face such contingencies (Figure 2.7). The traditional tools and techniques of change management are important but they need to be practiced over the years to develop the necessary strain energy of organization to withstand the shock like the modulus of resilience to withstand the impact loading of structures. Flexibility of an organization refers to its ability to change, while resilience signifies that the organization has been experiencing the change over the years. It is the continuity of change and the change culture inculcated into the organization to add on to its capacity an inner strength to make it resilient (Gittell, Cameron & Lim, 2004). When crises have almost become the order of the day at some part of the globe, what is needed is the organizational resilience to fight for survival in the midst of such hurricanes (Kendra and Wachtendorf, 2003).

Changes in the operations management scenario:

With greater knowledge sharing among corporations, organizations cannot continue to rely entirely on its own research and development. They need to make use of others’ technologies in its business as well. A good example of this would be IBM. It increased its sales of $2.86 billion with earnings of $364 million in 1963 to a massive $11 billion with earnings of $1.58 billion in 1973, but then in 1980s, as their technological and knowledge monopoly declined, in 1992, IBM recorded the largest annual loss in the US corporate history of $4.96 billion. Then, it opened up and entered into a contract with Apple Computer in 1993 allowing them to use IBM’s 2-1/2 inches drive in addition to using the same drive in their own laptop ThinkPad. By 1997, more than half of IBM’s 2-1/2 inches drive was going into the laptop of its competitors (Chesbrough, 2003). In summary, IBM could not keep its technology to itself but started sharing it with other firms thereby transiting from closed to open innovation (Figure 3.1).

Technology by itself has no value per se; economic value of technology remains latent until commercialized. For example, the technology of high speed copiers was rejected by firms like IBM, ADL, Kodak, and GE but the business model of leasing out of 914 high speed copiers eventually transformed $30 million Haloid Corporation into Xerox with $25 billion revenue. Again, the same success with high speed copiers resulted in a strong cognitive bias within Xerox and discouraged them to develop low speed copiers needed for small businesses and individuals. Japanese Canon and Ricoh focussed on this section of the market with great success. The effectiveness of the business model adopted (Figure 3.2) is relevant to add value to technology. A mediocre technology with a great business model may be more valuable than a great technology with a mediocre business model.

The value of any product or service depends on how it meets the needs of the customers. With constantly changing consumer needs, the organization needs to evolve continuously to keep pace. A firm may import technology but should be in a position to break it up, and reengineer it to improve it. For instance, while today certain type of medicine maybe in vogue; tomorrow we might see certain country-grown plant leaf or vegetable replacing the
imported medicine in the whole country. The search for better alternatives needs to be continuous in order to create customer demand (Figure 3.3).

The value of any product or service is not static—technological advances are quite rapid, tastes of individuals continue to change, and new products and services emerge constantly in the markets. Each consumer wants something special in their choice of products and services. The basic design of the car, for example, has remained the same for Toyota, but depending on the choice of various attributes for different target groups, different models continue to emerge in the different market segments. The whole design is structured as the building block of different modules, and the different modules are assembled together to evolve a new model with a new look. What is important is the modular concept to make it flexible (Figure 3.4). The same is the phenomenon for services, say for the offer of university courses. Earlier flexibility in course was limited but today, universities are busy in breaking down their offer of courses into different modules, so that it can meet the specific needs of a greater variety of students such as corporate executives or adult learners.

To ensure the value of any product or service to customers, traditionally managers have focussed on quality control, inspection of work-in-progress at each stage and the final point inspection using statistical sampling and control chart techniques. However, with increasing customer demand for quality, three sigma limits of confidence are no longer adequate. Six sigma limits and zero defect are what customers expect. A focus on total quality management process from the design table to the end-product is needed. The product and process have to be so designed, planned and executed so that any deviation from the set parameters would allow the system to readjust and be put back onto the track immediately. Customers won’t have to go for inspection or acceptance sampling; they would be assured of requisite quality standards without any check whatsoever (Figure 3.5).

To meet the variety of customers’ needs with assured quality, one important area of concern is the availability of required quality inputs on time. Firms need to work together with suppliers to meet their input requirements to enable them to move towards just-in-time system. The suppliers are also equally powerful to select their customers with their own terms and conditions. Suppliers need to be managed as another external arm of the organization as an asset, focussing on long-term relationship building (Figure 3.6).
Changes in management information system scenario:

Today, the world is so small that communication from one corner to another corner of the globe is easy and huge opportunities for any business to expand globally exist (Figure 4.1). As organizations expand at different locations around different corners of the globe, the days of data handling and decision making at specific locations using windows based system have become history. Web based system has emerged (Figure 4.2), allowing the managers to access and operate the system from anywhere. With rapid developments in both hardware and software, the age of vouchers, journals and ledgers have practically disappeared. Most of the transactions are taking place electronically today. The rapid growth and development in mobile technology has led businesses in different countries to weigh the pros and cons of switching from E-business to M-business (Figure 4.3). But be it communicated through E or M, what is basic is the management of organizational data base, and its proper use. We are not interested simply in the data base management system. We need to ensure proper integration so that it can be directly used for assessing the development and utilization of all organizational asset bases as a whole towards corporate objectives. Then we can confirm its effectiveness towards enterprise resource planning (Figure 4.4).

Changes in financial management scenario:

As we turn our attention to managing funds, portfolio of investments, we immediately think of diversification. Extending the portfolio principle to decide on the matching and compatible investments in organizational assets like the man and the machine, such as internal asset bases, and the suppliers, the customers, and the public image, such as external asset bases (Figure 5.1) is very important. Mostly we see huge investments have been made by certain organizations in favour of the latest technology, but there are hardly any investments in the organizational HR. This depletes the quality of HR over time. Likewise, organizations pay very little attention towards the development of suppliers, customers and towards developing the corporate image (Kolay, 1993). These need to be managed as assets, and any imbalance in investments leads to suboptimal risk-return scenarios. Risk can be reduced thereby increasing the factor of safety with obvious adverse consequences in the return. The main question revolves around the extent of incremental return against the additional risk, and to what extent of risk the organization is prepared to take to achieve higher return on the conservative to aggressive attitude scale (Figure 5.2).
Apart from the design of suitable portfolio of investments and the associated risk-return optimization, there has been a landmark development in the investment appraisal method itself (Black and Scholes, 1973). Any strategy or investment today may open up various options in the future. Therefore, the question arises how to put value those options while making the appraisal of such an investment proposal. Black and Scholes got the Nobel Prize for giving us the method of valuing put-call options in finance. The same concept is extended today to assess the firms’ discretionary future investment opportunities in physical and human assets (Trigeorgis, 1996) as real options (Figure 5.3). The job of strategic management is to create more and more options, and assess the present value of such future options to find the effectiveness of the strategies adopted.

Another important question arises who should govern the corporate house, and who should own the same? Is it the shareholders who provide the equity base or the managers who provide the intellectual capital and take all decisions and actions? The shareholders are the legal owners, but they are generally dispersed. Managers and board members may act in their own interests rather than that of shareholders. Attempts such as giving options to senior managers have been made to reduce agency problems. But such agency problems will continue to remain till agent-manager is different from owner-manager. On the other hand managers are the real controllers for all functional and strategic areas of management. If they walk out, the technology cannot run itself. In fact, the intellectual capital (Petty and Guthrie, 2000) dominates over money power and that is why today’s researchers (Rajan and Zingales, 2000) believe that letting managers be the owners who provide the intellectual capital may be the ideal situation (Figure 5.4).

**Changes in accounting practices scenario:**

An organization may make profits during the year as reflected in its annual accounts, but the organization needs to ask itself if it has been productive during the year. Did it add value or it has made profit because other organizations in the market are comparatively less efficient? Does the extra profit reflect the impact of increase in selling price or did it consume fewer resources per unit of output? Firms need to assess what is important for them to weigh the productivity achievements of the company in terms of output per unit of input, besides the traditional profit and profitability scores (Figure 6.1). Both outputs and inputs need to be at constant prices so that the actual level of productivity achievements is known, differentiating the favourable or adverse impact of fluctuating price level of both inputs and outputs.

Once the level of productivity achievements is known, exploration of ways and means to improve the level is needed. The first and foremost area that attracts our attention is cost planning and control at all operational areas, be it manufacturing items or service areas. From the traditional method of overhead absorption costing, movement towards activity based costing is needed. Manufacturing or service constitutes a number of activities, and associating each activity with the cost driver is needed. With a greater level of competition, greater vigilance and precision on cost figures for day to day cost control is needed. For that we need to move from activity based costing to parameter based costing (Figure 6.2), where we identify certain key parameters of the activity that are likely to govern the major portion of the cost. Waiting for the monthly or weekly cost figure of activities to control cost is not an
option. We need to link cost with process control parameters, and monitor those parameters on the control panel online to regulate activity.

While converting inputs to outputs and adding value, organizations add industrial wastes and rejects, polluting the environment. Most of the countries have pollution control boards to set the upper limit of discharge of different pollutants (air, water, and solid pollutants) to the environment. But legal provisions apart, corporations not only meet the set targets, but they try to go a long way to make the factory green. In fact, many organizations are engaged today to boost their image as a socially responsible corporate citizen in the market place (Kolay, 1995), an image building exercise in the arena of greenhouse accounting (Figure 6.3). Besides the concern for environment protection for the society at large, there are other societal areas of concern like employment generation, facilitation of industrial growth, conservation of natural resources etc. Many organizations are struggling to survive, and may not have distinct social goals, other than profit goals. However as firms move along the path of profitability, corporations need to assess the extent of impact that they create on different areas of societal concern, favourable or adverse. Such an impact may be viewed along with corporate profitability performance to reflect the total performance of any organization (Figure 6.4).

Lastly, accounting practices in different countries are different, and are generally guided as per the provisions of Companies Act of the respective countries. Even within a country, accounting treatment, valuation of inventory and assets, provision for contingent liabilities etc. vary quite significantly from organization to organization depending on the organizational size, sector, constitutional structure, location, etc. All these differences in accounting norms, provisions, and practices make inter and intra firm comparison difficult. With globalisation, it has become all the more important to have uniform accounting standards (Figure 6.5). When different countries are busy in diversification, globalization, and privatization, it is the right time to evaluate the pros and cons of different international accounting standards and either choose a particular international accounting standard or
evolve its own uniform accounting standards. That will go in a long way to assess the effectiveness of various decisions and actions of managers in the pursuits of sustained success of each and every organization in the economy.

Conclusions:

The management process has been evolving rapidly to match with the increasing complexity of modern business. Assimilation and transformation are occurring for continuous improvement in the effectiveness of managerial decisions and actions. Looking back, the path of transformation is clearly visible as the traditional systems and procedures in all functional and strategic areas of management are replaced over time. Looking forward, in order to improve the cost to benefit aspect, new dynamic changes need to emerge in the management process. Firms need to perceive and weigh the merits and demerits of those changes, and reengineer themselves with newer tools and techniques of scientific management.

References:


